

Mutual Funds: How they look at the market now

(Page 110)

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INDEX

• 175
• 150
• 125
• 100
• 75
• 50
• 25
• 0

BUSINESS WEEK

A McGRAW-HILL PUBLICATION

FIFTY CENTS

FEB. 6, 1960



Mercury's Comet takes the next step in Detroit's transition — a smaller car for every customer. (Marketing)

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Photograph taken through the courtesy of Crown Rubber Company, Fremont, Ohio

Out in front, because it's so well-backed — with PLIOLITE LATEX

New in concept is perhaps the best way to describe the handsome floor covering pictured above. The idea is to use it first as temporary carpeting, later as permanent padding under conventional carpeting. It's made of durable woven cotton, permanently bonded to long-lasting foam rubber. The price—pennies per square foot.

A vital part in turning this bright idea into a successful product was played by PLIOLITE LATEX 5352. This new synthetic rubber latex was chosen primarily

because it can be used *without* blending with natural rubber latex to make resilient, durable foam. Other reasons for its selection: Outstanding uniformity. Excellent physical properties.

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GOOD YEAR

CHEMICAL DIVISION

Pliolite—T. M. The Goodyear Tire & Rubber Company, Akron, Ohio

GENERAL BUSINESS

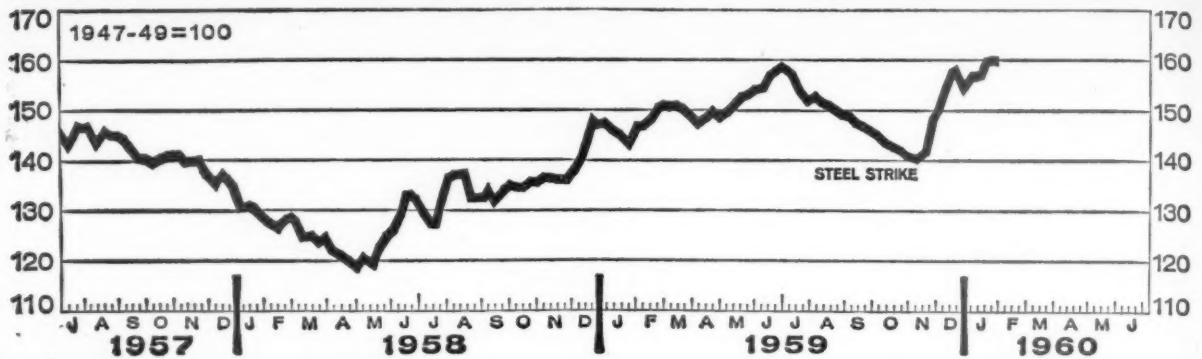
	Page
BUSINESS OUTLOOK	19
WASHINGTON OUTLOOK	37
INTERNATIONAL OUTLOOK	99
PERSONAL BUSINESS	117
THE TREND	136
FIGURES OF THE WEEK	2
READERS REPORT	5

AUTO DEALERS OPTIMISTIC—BUT THEY DON'T KNOW WHY. At Washington convention, they discuss the effects of the Big Three compact cars on different markets.....	22
HOW THE U.S. GOT GUTERMA CONVICTED. The court issue wasn't the deals themselves but Guterma's failure to report them to SEC.....	24
DE GAULLE WINS FOR NOW, FACES TEST LATER. With insurgents quelled in Algeria, he still must bring Army under control.....	26
REAL BUSINESS BEARS ARE HARD TO FIND—BUT STUBBORN. Outside of Wall Street, the species is scarce, but its few members look for pitfalls.....	28
SEARCH FOR AN ECONOMIC ISSUE. Democrats didn't make much headway at this week's hearings of Joint Economic Committee. Experts tended to approve Administration policies and forecasts.....	30
TRANQUILIZER MAKERS PUT ON SPOT. Antitrust charges and a Kefauver probe hit ethical drug companies together.....	32
IN BUSINESS. Compact cars join horsepower race, toxic color control expected, export grain rates cut, Rojzman steps down at J. I. Case, Eden Roc's plans.....	34

THE DEPARTMENTS

BUSINESS ABROAD:	In Business Abroad. U. S. trade policy, International Development Assn.'s loan program, U. S. hotel chains in Middle East, Russia's small car.....	71
	The Fancy Financial Footwork That Built an Argentine Pipeline. How two U. S. companies financed credits in Europe and U. S. to get job done.....	72
CANADA:	Sizing Up Canada's Tory Regime. U. S. and Canadian businessmen are trying to forecast long-range effects of "Diefenbaker's nationalism".....	121
FINANCE:	Profits Bring Smiles—and a Tear. Last year's showing was sensational, except for a worrisome lag in the last quarter.....	54
	In Finance. W. R. Grace's purchase of Cosden stock, long-term borrowing picture, Western Union sale of international cable business, Murchison in Alleghany.....	58
GOVERNMENT:	Trouble For Public Pension Funds? Political considerations often override sound financial judgment in investment of public employees' retirement funds.....	106
LABOR:	Hoffa and Monitors Gird for the Showdown. Coming court battle will climax one of longest and most unusual legal contests in labor history.....	102
	In Labor. UAW's new organizing setup, fight between bakery unions, Puerto Rican dock merger, Hollywood "gravy war".....	105
MANAGEMENT:	New Style Management for an Old Church. Episcopal diocese of Michigan turns—cautiously—to latest techniques.....	124
MARKETING:	Ford's New Comet: Still More Variety (cover). The auto industry's latest goal is a smaller car for every taste.....	84
	Franchise Selling Catches On. Estimated 100,000 franchise holders retail everything from bookkeeping services to carry-out food to swimming pools.....	90
	In Marketing. Addressograph registration of convention visitors, Burlington's merger plans, advertising in the clouds, scented polyethylene, appliance rentals..	97
THE MARKETS:	Funds Take a Cautious View. Mutual fund managers think the bull market is losing momentum	110
	Wall St. Talks	112
	In The Markets. Stock prices rebound, government securities continue to rise, Treasury to hike interest on money loaned from government trust funds, banker and oilman bid for electronics, American Dryer named in SEC complaint.....	115
PRODUCTION:	Machines Tackle Bank Paperwork. Check sorters that can "read" code numbers in magnetic ink are beginning to replace armies of clerks.....	42
TRANSPORTATION:	Profit on Commuters—A Little. Chicago & North Western Ry. says it can be done. And tells how.....	60
	Many Legal Twists Govern Air Crash Claims. Damages collected can depend on where crash occurs, where ticket was bought, even on stopovers.....	64

FIGURES of the WEEK



BUSINESS WEEK INDEX (chart)

1953-55 Average	Year Ago	Month Ago	Week Ago	\$ Latest Week
133.3	147.5	157.7	160.5r	160.4*

PRODUCTION

Steel ingot (thous. of tons).....	2,032	2,288	2,715	2,717r	2,687
Automobiles	125,553	119,678	112,113	175,060r	174,017
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.).....	\$52,412	\$63,193	\$52,013	\$55,003	\$58,797
Electric power (millions of kilowatt-hours).....	10,819	13,151	13,565	14,523	14,313
Crude oil and condensate (daily av., thous. of bbl.).....	6,536	7,107	7,068	7,190	7,136
Bituminous coal (daily av., thous. of tons).....	1,455	1,334	1,370	1,471r	1,442
Paperboard (tons).....	247,488	293,826	138,521 ¹	322,114	325,870

TRADE

Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars).....	70	54	56	60	59
Carloadings: all others (daily av., thous. of cars).....	47	38	38	41	39
Department store sales index (1947-49 = 100, not seasonally adjusted).....	121	105	246	120	113
Business failures (Dun & Bradstreet, number).....	198	322	226	302	281

PRICES

Industrial raw materials, daily index (BLS, 1947-49 = 100).....	89.2	88.9	93.4	94.8	94.9
Foodstuffs, daily index (BLS, 1947-49 = 100).....	90.5	78.4	70.8	72.4	72.1
Print cloth (spot and nearby, yd.).....	19.8¢	18.2¢	23.0¢	23.0¢	22.2¢
Finished steel, index (BLS, 1947-49 = 100).....	143.9	187.0	186.8	186.8	186.8
Scrap steel composite (Iron Age, ton).....	\$36.10	\$43.83	\$41.50	\$42.50	\$42.17
Copper (electrolytic, delivered price, E&MJ, lb.).....	32.394¢	29.560¢	34.113¢	34.215¢	33.785¢
Aluminum, primary pig (U.S. del., E&MJ, lb.).....	20.6¢	24.7¢	26.0¢	26.0¢	26.0¢
Aluminum, secondary alloy #380, 1% zinc (U.S. del., E&MJ, lb.).....	‡	21.95¢	25.02¢	25.02¢	24.32¢
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.).....	\$2.34	\$2.01	\$2.09	\$2.08	\$2.08
Cotton, daily price (middling, 1 in., 14 designated markets, lb.).....	34.57¢	34.31¢	31.88¢	31.93¢	31.95¢
Wool tops (Boston, lb.).....	\$1.96	\$1.62	\$1.86	\$1.88	\$1.83

FINANCE

500 stocks composite, price index (S&P's, 1941-42 = 10).....	31.64	55.23	60.08	56.99	56.17
Medium grade corporate bond yield (Baa issues, Moody's).....	3.59%	4.90%	5.32%	5.36%	5.36%
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate).....	2-2½%	3½%	4½%	5%	4¾%

BANKING (Millions of Dollars)

Demand deposits adjusted, reporting member banks.....	‡	62,791	63,204	62,273	62,122
Total loans and investments, reporting member banks.....	‡	102,870	105,363	102,834	102,276
Commercial, industrial, and agricultural loans, reporting member banks....	‡	31,366	31,395	30,880	30,559
U. S. gov't guaranteed obligations held, reporting member banks.....	‡	34,701	27,468	26,904	26,679
Total federal reserve credit outstanding.....	26,424	27,094	29,629	28,098	27,370

MONTHLY FIGURES OF THE WEEK

	1953-55 Average	Year Ago	Month Ago	Latest Month
Consumer credit outstanding (in billions).....	\$34.2	\$45.6	\$50.4	\$52.0
Installment credit outstanding (in billions).....	\$25.2	\$34.1	\$38.7	\$39.5
Manufacturer's inventories (seasonally adjusted, in billions).....	\$45.2	\$49.2	\$51.6	\$52.3
Imports (in millions).....	\$902	\$1,254	\$1,282	\$1,478

* Preliminary, week ended January 30, 1960.
‡ Not available.

¹ Dec. 27-31, 1959.

^r Revised.
⁸ Date for 'Latest Week' on each series on request.

THE PICTURES—Cover—Gene Pyle; 22, 23—Robert Phillips; 25—WW; 26—Paris Match from Pictorial Parade; 27—WW; 30, 31—Grant Comp-ton; 42—Herb Kratochvil; 43—BM; 60—Mike Shea; 65—WW; 72—Herb Kratochvil; 84, 85—Jack Fuller; 103—(left top) INP, (left bottom and right) WW; 107—(top) Gil Tharp, (center and bottom) Billy Barnes; 121—Fednews; 124, 125—Gene Pyle.

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BUSINESS WEEK • Feb. 6, 1960

READERS REPORT

Some Flow

Dear Sir:

Mind if I raise an eyebrow over your reversal of the flow of the Great Lakes-St. Lawrence waterways?

Referring specifically to page 129 [BW—Jan.23'60,p129] lines 10 and 11 of the middle column: "From the Atlantic to Lake Superior, the St. Lawrence-lakes system drops 602 ft."

Run for the hills, Duluth, you're about to be inundated!

LEON C. SKALICKY

LAPORTE, IND.

• **Duluthians need have no fears. The drop is from Lake Superior to the Atlantic.**

Executive Shelters

Dear Sir:

Professor Ullman's letter on executive's shelters [BW—Dec.26'59, p6] and his show of irony, leaves me cold.

I wonder if it has ever occurred to the good professor that he can build for himself and family, if he has a family, a fall-out shelter for less than \$1,000, and can amortize it over a 20-year period for about what he spends on cigarettes—that is, if he smokes.

By golly, this country is getting into a - - - of a shape when people resent others taking safety measures to their person.

Suppose the good professor wants Standard Oil to build a shelter for him.

CHARLES F. REED

HOUSTON, TEX.

Inflationary Proposal

Dear Sir:

Re: Reader Farkas' proposal [BW—Jan.23'60,p5].

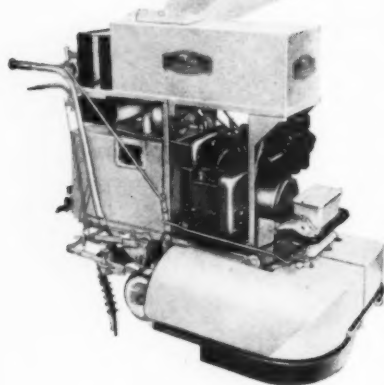
Assuming tariff barriers per se can resist the inroads of ultimate reciprocity with the European trade blocs, it would seem overimaginative to apply sweepingly Reader Farkas' proposal. Presumably, to be sure, there are nations whose work forces turn out competitive products at low prices because real wage payments are niggardly. But using West Germany . . . as an example, the proposed rebate applied to wage increases would not add to the real income of the working force. Instead, more than likely, the effects would be inflationary and could

Self-Powered

COMBINATION SCRUBBER-VAC

Cleans Vast-Area Floors "By the Mile"

Monoxide Eliminator,
Powder Dispenser,
and Rinse Assembly
are accessories



- Completely mechanizes scrubbing
- Coverage up to 24,400 sq. ft. per hour!
- Mounts a SELF-STARTING gasoline engine

This *all-in-one* cleaning unit, Finnell's 218G Gasoline-Powered Combination Scrubber-Vac, is indeed the answer to today's need for increasing output per man-hour on vast-area scrubbing. The 218G applies the cleanser, scrubs, flush-rinses if required, and picks up (damp-dries the floor) — *all in one operation!* Independence from power lines permits the machine to go wherever the operator guides it . . . working in and out of production areas with ease . . . scrubbing continuously.

Maintenance men appreciate the labor-saving features of this unit. The gasoline engine starts quickly and easily by pressing the starter button. And there are no switches to set for *fast or slow* — slight pressure of the hand on clutch lever adjusts speed to desired rate (up to 136 fpm). Two 18-inch brushes give a 36-inch scrubbing surface. *One engine* (2 cyl., 4 cycle, up to 10.1 hp maximum, and air-cooled) operates all working parts. The powerful vac performs quietly.

Whatever the area of your floors, find out what you would save with a *Combination Scrubber-Vac*. Finnell makes *self-powered* models — gasoline, propane, and battery operated — for small, vast, and intermediate operations. And of course Finnell also makes *electric* models to meet specific needs. It's good to know too that a *Finnell Floor Specialist and Engineer* is nearby to help train your maintenance operators in the proper use of *Finnell Equipment* and to make periodic check-ups. For demonstration, consultation, or literature, phone or write nearest *Finnell Branch* or Finnell System, Inc., 3802 East St., Elkhart, Ind. Branch Offices in all principal cities of the United States and Canada.

FINNELL SYSTEM, INC.

*Originators of
Power Scrubbing and Polishing Machines*



BRANCHES
IN ALL
PRINCIPAL
CITIES

readily result in reduced real income for the affected workers.

Therefore, whatever merit Farakas' proposal has is far outweighed by its inherent inflationary bias, presuming it is implemented in prosperous times.

RICHARD D. KARFUNKLE
BROOKLYN, N. Y.

An Ordered Universe

Dear Sir:

Your article *What Darwin Means to the Space Age* [BW—Dec.12'59,p103] was most interesting.

Surely Sir Julian Huxley would not pretend that the space satellites now circling our globe came into existence through mere chance. Yet he proposes that the men who developed these satellites, the planet on which they live, and the universe of which we are a part, are all the result of 2.5-billion years of "blind opportunistic workings of natural selection." . . .

It is revealing, I think, that these scientists' basic goal for the next 100 years "is to continue the search for new knowledge to, 'fill the tremendous gaps that still yawn' in knowledge of man's evolution." . . .

Yes, gentlemen, I too am amazed that after 100 years of scientific advancement Darwin's theory still dominates the thoughts of some of the world's scientists.

The entire universe, to the smallest particle of matter, exhibits order and regulation. It is inconceivable to me and contrary to all the "laws" of nature that this well-ordered universe could have merely chanced to evolve. The creation's existence is irrefutable evidence of the Creator. . . .

DAVID H. THIESSEN
MINNEAPOLIS, MINN.

Videotape, Please

Dear Sir:

Your article, TV's *Splurge on Eisenhower Trip* [BW—Dec.12 '59,p29], was another evidence of the acuity to change which has made *BUSINESS WEEK* so nearly indispensable to forward-looking management. All the more, then, are we embarrassed by what we are certain was inadvertent misuse of the term *Videotape*. . . .

The word *Videotape* is a trademark of the Ampex Corp. which defines our brand of television magnetic recorders and reproducers. . . .

HARVEY G. LOWHURST
PATENT COUNSEL
AMPEX CORP.
REDWOOD CITY, CALIF.

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URST

1960



Huge benches carved from cliff will seat Niagara power house. Merritt-Chapman & Scott Corp., contractor.

Man-made "Niagara" to boost power of falls

A monster in its field, the Niagara Power Project, to be completed in 1961, will have the largest installed generating capacity in the World: more than 2,000,000 kilowatts delivered by 13 giant turbines.

Key structure of the project is an 1840-foot-long generating plant at the base of a high rock cliff on the Niagara River at Lewiston, New York. Water will flow through twin conduits from the river into a forebay above the plant, then drop a sheer 314 feet to the turbines.

To prepare the powerhouse site, 9½

million yards of rock must be removed. To get the job done on time, the contractor is working 'round the clock, six days a week. Naturally, equipment must be of unquestioned dependability—which is one reason why Gardner-Denver "Air Trac"® and heavy-duty drills were used as part of the blast hole drilling team.

Here, as on many another major civil engineering project, 100-year-young Gardner-Denver is again demonstrating its leadership.

Gardner-Denver Company, Quincy, Illinois.



Gardner-Denver drills at work at powerhouse site.



EQUIPMENT TODAY FOR THE CHALLENGE OF TOMORROW

GARDNER - DENVER



What 3 things do these parts have in common?

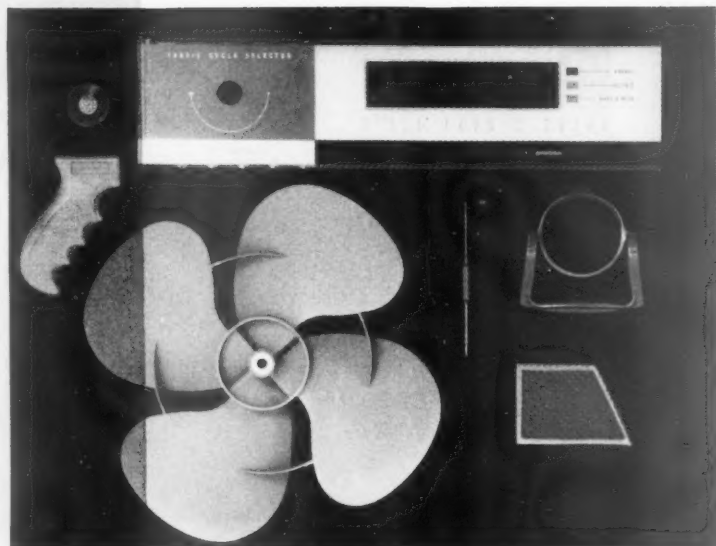
They perform better. Yet they cost less. And they are all molded of plastics.

The exhaust fan blades have a molded-in metal bearing, and are unaffected by corrosive fumes. The washing machine filter not only costs less to make, it also licked a rust problem. The one-piece phonograph spindle cap simplified a complicated assembly, while maintaining tolerances of $+.003$ and $-.000$.

The jewelers' screw driver, the pistol grip tool handle, the dryer control panel, and the milk bottle handle are all low cost product improvements, made possible by the ever-widening choice of plastics materials and the growing efficiencies of custom molders.

Think of the custom molder of plastics as the "manufacturer's manufacturer." His engineering staff measures the product for plastics. His tool-makers build the master molds to close tolerances. His manufacturing facilities produce the most complex parts with consistent quality, at rates to meet the tightest schedules and budgets.

Monsanto, supplier of plastics molding compounds to leading custom molders, has prepared a special report on "How To Buy Custom Molded Plastics." Write for your free copy to Monsanto Chemical Company, Plastics Division, Room 710, Springfield 2, Mass.



MONSANTO PACE-SETTER IN PLASTICS





We help you see things in a b

Macy's—world's largest store—has been saying for years, "It's smart to be thrifty." And they practice what they preach. They buy all their fluorescents from Sylvania.

Years of experience have proved that Sylvania lamps give the lowest TCL—Total Cost of Lighting (which means cost of lamp plus power plus maintenance). An additional economy is the Sylvania Light Insurance Policy. It guarantees that every Sylvania fluorescent

must, in your opinion, give you more light at lower cost than other brands—or your money back.

Only Sylvania offers you this insurance. Macy's has it. Do you?

Sylvania Lighting Products, a Division of Sylvania Electric Products Inc., Dept. OL-57, 60 Boston St., Salem, Mass. In Canada: Sylvania Electric (Canada) Ltd., P.O. Box 1190, Station "O," Montreal 9.





h a better light at Macy's

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Subsidiary of **GENERAL TELEPHONE & ELECTRONICS**



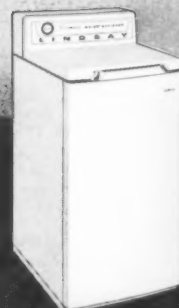
MACW / Sylvania
COOL WHITE
RAPID START - PREHEAT

Sylvania leads in
lighting advances:
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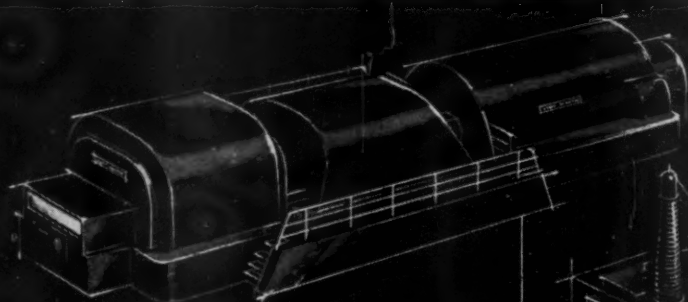
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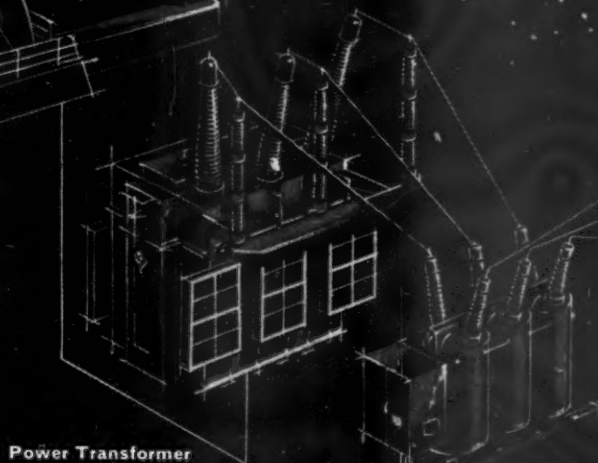
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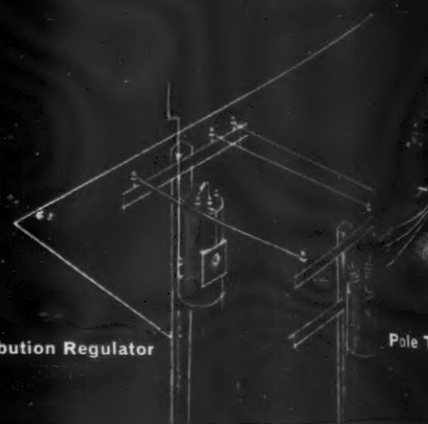
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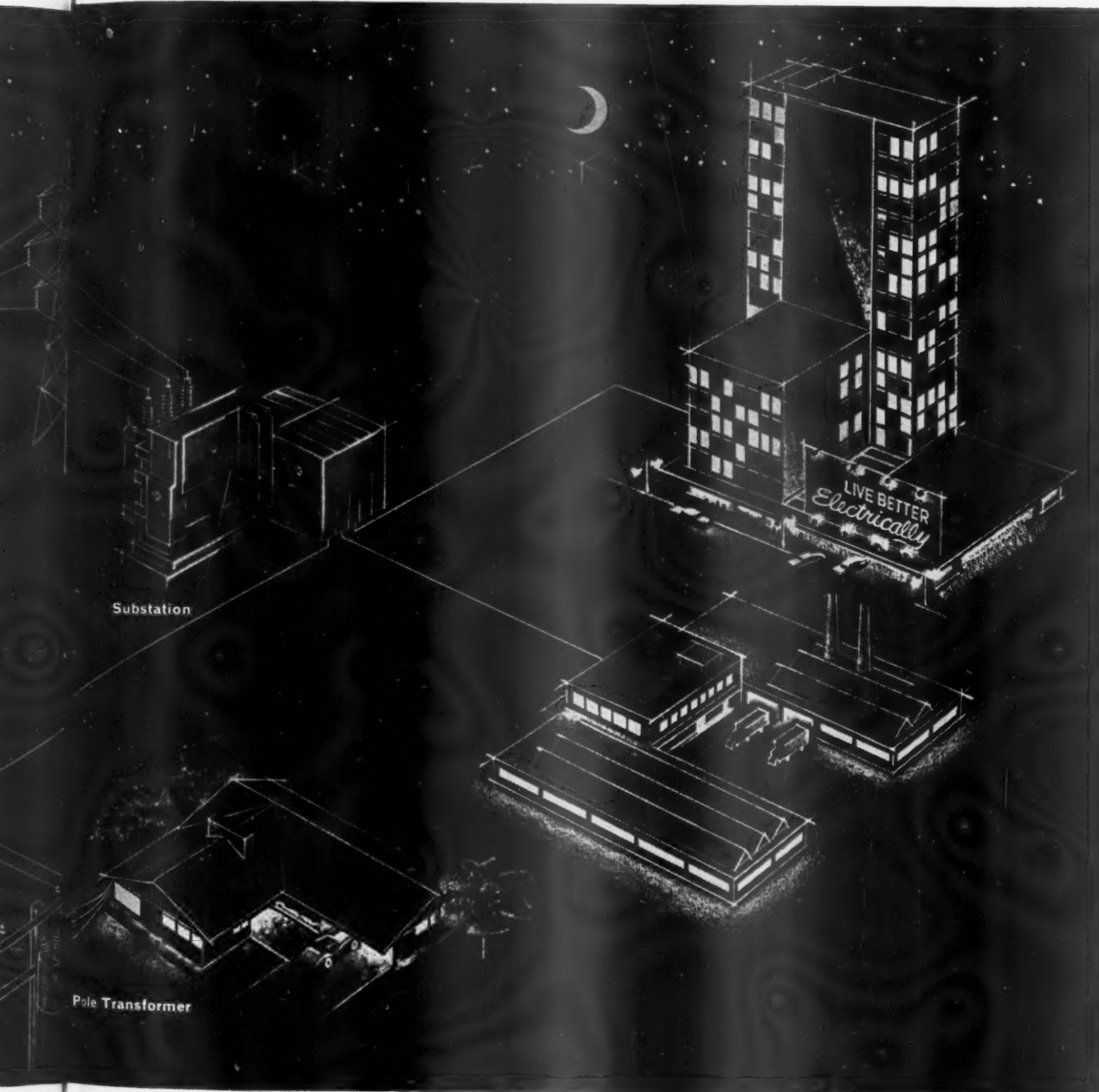
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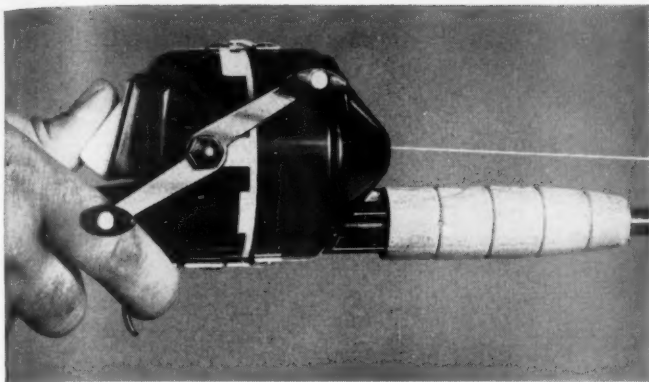
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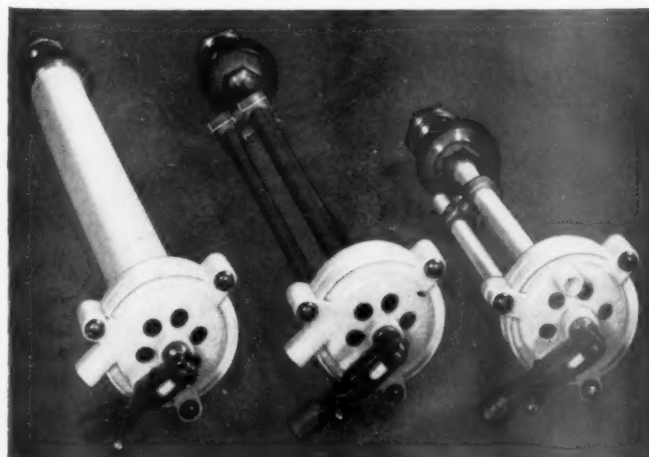


The Zebco Company of Tulsa, Okla., cites "Delrin" as making possible a truly corrosion-proof salt-water spinning reel. In their "Fabulous Zebco 88", "Delrin" is used for the housing, thumb control and body. Zebco found in "Delrin" the stiffness, toughness, light weight, wear and corrosion resistance it needed. The "Fabulous Zebco 99" is also made of "Delrin" for long-lasting fresh-water spin fishing. (Molded by Continental Plastics Co., Oklahoma City, and Ajax Plastics, Tulsa, Okla.)

A new chain conveyor made by Union Chain & Manufacturing Co., Sandusky, O., features top plates molded of "Delrin". In switching from steel, the company states that "Delrin" offers constant dimensional stability, lower manufacturing costs and improved performance, because the smooth surface quality of "Delrin" means less spillage and breakage. (Molded by Anderson Associates, Toledo, Ohio.)



For their "Flow King" ball-cock valve (left in photo below), Coast Foundry & Manufacturing Co., La Verne, Calif., chose "Delrin" rather than brass for the valve's bonnets, because "Delrin" reduces production costs, and it has the required dimensional stability, stiffness and durability. These properties and savings (injection-molded "Delrin" eliminated all finishing operations) have prompted the use of "Delrin" for bonnets in two other valves. (Molded by Coast Craft Industries, Glendale, Calif.)



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BUSINESS OUTLOOK

BUSINESS WEEK

FEB. 6, 1960

A BUSINESS WEEK

SERVICE

People didn't borrow anything like as much money to buy automobiles in the closing months of 1959 as had been expected.

That may be just as good as money in the bank for auto manufacturers and auto dealers—or it may be an ominous sign. Right now, if you ask the auto people, they'll tell you it's money in their banks.

Final reports on consumer borrowing last year, out this week, show this unusual situation on auto debt:

- From April through August, installment lending for purchase of cars exceeded repayments by an average of \$360-million a month. That ran auto debt up by about \$1.8-billion in the five months.
- But, in the last four months of the year, the average increase was only \$75-million a month.

Repayments actually exceeded new loans on autos in December.

A small decline in auto debt in the final month of the year is by no means unheard of. However, December's decline of \$79-million was much the largest reported in any of the last half dozen years.

This is all the more unusual when you consider that personal income was rising at an extraordinary rate (BW—Jan.23'60,p20).

Everyone knows, of course, a lot more automobiles would have been sold late last year if they had been available. And, as a footnote, installment loans on cars would have risen much more than they did.

Equally clearly, Detroit is now out to make up for lost time.

January production of new cars edged just above 690,000, a new record for the month by a good margin. The February schedule calls for 725,000. Then, if the first quarter is to come up to the 1,275,000 bogey, March's outpouring will have to be above 850,000.

Biggest single month, up to now, was 794,000 in March, 1955.

Slim borrowings to buy automobiles in the late months of 1959 would be ominous only if it showed consumers were pinching pennies.

This they were not doing. Time debt to cover purchases other than automobiles rose more sharply in December than ever before in any month. Maybe, in some cases, this meant spending intended for autos went for other things. Yet it's doubtful that many auto buyers were lost that way.

Borrowing on time to buy things other than autos shot up \$556-million in December. That carried the total outstanding to a record \$10¼-billion. And all types of consumer borrowing (installment, charge account, etc.) ended 1959 at \$52-billion, a new high, up nearly \$6½-billion for the year.

Here's one kind of steel you can buy without too much trouble:

Structurals are available and delivery times normal. The mills say business in these shapes is good, but not so good but what they have salesmen out looking for more orders.

BUSINESS OUTLOOK (Continued)

BUSINESS WEEK

FEB. 6, 1960

In particular, they're looking for highway business. Even more particularly, they want to supplant pre-stressed concrete.

Structural steel didn't have so good a year in 1959 as you might have guessed from the amount of heavy construction put in place.

Business came in during the early months in rather ordinary volume. And, even though shipments moved up sharply just before the steel strike, the last half of the year was dismal. For the year, shipments were 2.9-million tons against more than 3.6-million in 1958 and the record of nearly 4.2-million in 1957.

Orders did better than shipments—3.2-million tons—but even here the showing was no great shakes alongside most recent years.

—●—

Reduced prices may take the joy out of the tire cord market for those who win it, but that isn't cutting the eagerness of contestants.

Allied Chemical has just announced its 1960 capital outlays are planned at \$85-million, up from \$40-million last year. A big chunk of the money is for capacity in Caprolan, the company's nylon 6 tire fiber.

Almost simultaneously, Dow Chemical revealed it is about to start building a plant, costing in the millions, to produce nylon 6.

This nylon 6 is described as cheaper to make than nylon 66, known to many in the trade as the "conventional" nylon tire filament.

Wall Street was wondering this week how much profit margins had been squeezed on high-strength rayon tire cord, now commonly known by its new trade name Tyrex. The reason: American Enka, a major Tyrex producer, voted a 25¢ quarterly dividend (an unexplained cut from last year when Enka paid 35¢ quarterly plus an extra in December).

—●—

New orders for machine tools ran nearly \$660-million last year, far ahead of 1958. However, the sales curve flattened after mid-year, and the year's total was substantially below 1955-57 boom levels.

Most of last year, shipments of machine tools lagged new orders. December, in fact, was the only month to show larger billings than bookings, though output had begun to swing up in October.

Now, with steel shortages largely a thing of the past and customers looking to 1960-61 modernization, even a modest improvement in orders should sustain output around December's \$63-million-plus rate.

—●—

Estimates of the value of construction put in place in January snapped back sharply from late 1959 on a seasonally adjusted basis.

The latest figure prepared by the Dept. of Commerce (which assumes steel shortages were largely over) bounced to an annual rate of \$54.8-billion. This compares with a low of \$50.7-billion in November and puts total construction back about on a par with year-earlier levels.

TRANSPORTATION



Management takes a second look at costs

Sharp rise in expense of transporting materials and products adds emphasis to management's cry, "How can we cut our costs?"

Last year, American industry spent \$50 billion to move goods. The total is considerably more than it was five years ago; it is considerably less than it will be in another five years. These rising costs — plus a new realization of the role transportation plays in production and distribution — are causing many top management people to take a second look at what they pay to move goods, to find ways and means of getting more value out of their transportation dollar.

Our own customers reflect very well this heightened interest in transport ef-

ficiency. So much so, that at their behest we recently published a comprehensive executive study focused on transportation economies. Among other topics, the study examines the advisability of integrating traffic with other departments, indicates how best use may be made of the talents and abilities of the traffic manager and discusses methods of cutting costs without sacrificing service.

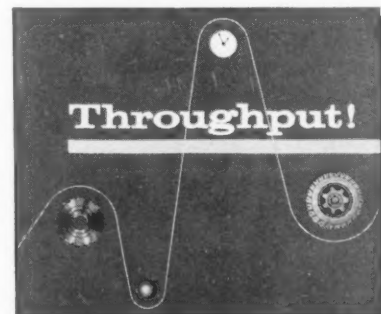
The name of the study is "Throughput" and it has already been circulated to our customers. We have, however, a limited number of extra copies we will be pleased to mail on request. No obligation, of course, except that we would appreciate hearing your opinion of "Throughput" after you've studied it.

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MORE THAN A TRUCK LINE...

A TRANSPORTATION SYSTEM



Auto Dealers Optimistic—But T

J. Duncan Suttel is a reflective-looking merchant from Pawtucket, R. I., who has been selling automobiles since 1936. This week, swapping notes with auto dealers from all over the country gathering in Washington for their annual convention, Suttel concluded: "It doesn't make any difference what I think. It's what John Q. Public thinks."

What the public thinks about the 1960 cars—and how it is reacting to them—is quite plainly confusing many

of the men at the National Automobile Dealers Assn.'s convention. Most of them, in one way or another, echoed the views of the men pictured. Those views can be summed up simply as optimistic—without knowing why.

It's going to be a good sales year—better than last year and better than 1957—the NADA members feel, and they cite enough specifics to sound convincing. But you have to remember that less than a third of all new-car dealers attend the convention, and that,

as a group, they are the most successful dealers. These men say it's going to be a good year, but they don't pretend to know what shape the auto market is assuming. For right now the market is in ferment and may not be what it seems to be.

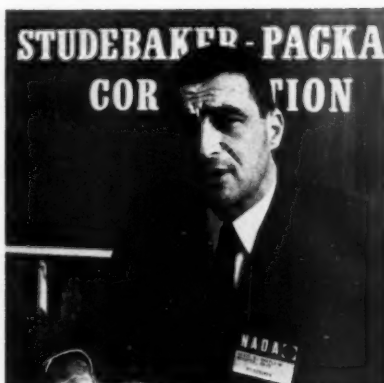
• **Abnormal**—One of the most important of the manufacturing executives agrees. "The market is so abnormal," says James O. Wright, vice-president and general manager of the Ford Div., "that we can't draw conclusions."

What Some Car Dealers Say the New Compact C

THE MARKET



"It's a year of a great deal of wonderment"—J. Duncan Suttel, Pawtucket, R. I., Lincoln-Mercury; 24 years in the business.



"The Big Three compacts have helped by stimulating interest"—David W. Chatlain, Wooster, Ohio, Studebaker; nine years.



"This year is the threshold of a new era"—William A. Grawemeyer, Indianapolis, Ramblers; 13 years.

STANDARD-SIZED CARS



"Hottest thing we got is the New Yorker"—W. R. Shadoff, Pomona, Calif., Chrysler-Plymouth-Valiant; 22 years.



"I'm not worrying a bit about them at this stage"—L. W. Thoms, St. Louis, Pontiac; 40 years.



"Our biggest complaint about the car is that it's too big"—Miles Dietrich, Wayne, Mich., Buick; 26 years.

But They Don't Know Why

There is still a shortage of cars as an aftermath of the steel strike—L. W. Thoms, who expects to sell 1,500 Pontiacs this year, has only a 10-day stock when he should have at least three times that many. Chevrolet's Corvair and Chrysler's Valiant small cars are still in too-limited supply for dealers to feel they have had a competitive test against Ford's Falcon.

• **Some Start Slowly**—January started very dull for some dealers.

"I am quite disturbed," says Wayne

C. Edmonson, an Evansville (Ind.) Studebaker dealer. "Sales had been terrific," says Bill Jones, who sells the Dodge in Augusta, Ga., "but the public's attitude has changed since the first of the year." Neither of these men is pessimistic. Along with other dealers, they think what has happened is that the easy business has been pulled in—"those who want to be first with the newest," as a dealer explains.

That generally happens within a couple of months after a new car is



BIG AND LITTLE GROUPS talked sales at annual convention of the National Auto Dealers Assn. in Washington.

Cars Have Done to: USED CARS



"The small cars are softening the used car prices"—James R. Cross, Van Nuys, Calif., Oldsmobile; 20 years.

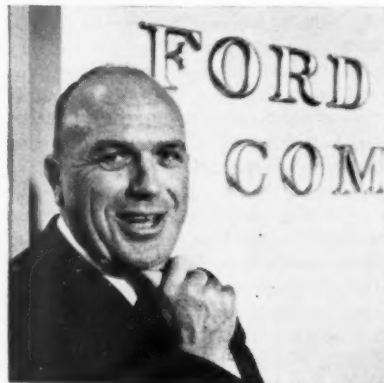


"The late-model, high-priced used car is a Jonah"—Bill Jones, Augusta, Ga., Dodge; 10 years.

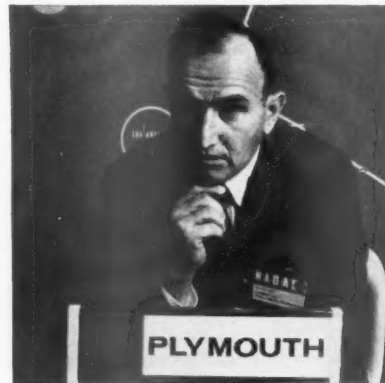


"I've sold Falcons to some used car customers"—John Warfield, Frederick, Md., Ford; six years.

IMPORTS



"Imports are no longer the cream-puffs"—Elmer Drew, La Mesa, Calif., Ford; 33 years.



"Renault sales would have been better without the compacts"—Melvin Karp, Savannah, Ga., Dodge-Jaguar-Renault; 21 years.



"They're going to cut into foreign car sales"—Leon E. Titus, Tacoma, Ford-British Ford; 46 years.

introduced, but was delayed this time by the steel strike. Now the dealers will have to step up their sales efforts—which doesn't bother them at all.

Detroit sales reports indicate that only a minority of dealers are disturbed about January results. Delivery figures reported by the dealers to the factory are comfortably ahead of the year-before month. They are not at a pace that would add up to total sales of about 6.8-million—a popular industry forecast last fall—but that could be attributed to many things. Most of them involve, one way or another, the vehicle that has shredded the market—the compact car.

I. The Way of the Compacts

"People think it's smart to buy a smaller car," says Horace B. McGrath, who has been in the Pontiac business in Cedar Rapids, Iowa, for eight years. He thinks it is really the so-called low-priced cars—Chevrolet, Ford, and Plymouth—that are suffering most from the compact cars. You don't hear that from most Ford and Chevy dealers, though. They think the bulk of their Falcon and Corvair sales are to other classes of customers.

Detroit analysts aren't so sure. While waiting for larger figures to play with before drawing conclusions, they have the impression that standard-size cars are not moving so well as anticipated.

The one standard-size "low-price" car that seems to many dealers to be dragging is Plymouth. (You can get an exception to that, too: W. R. Shadoff, in Pomona, Calif., who has switched some prospects up from a Valiant to a Plymouth.) By and large, Plymouth has suffered more from Dodge's Dart (which is the same size and about the same price) than from the Valiant. Chrysler took the Plymouth franchise away from Dodge dealers and gave them the Dart instead; the Dodge dealers have been keeping the former Plymouth customers.

The dealers at the meeting who handle the medium-priced cars were surprisingly optimistic. They went along with the general feeling that the year's business would be good, arguing that they sell "quality" cars to a quality market. It will be a steady, and profitable market—although lower than in years such as 1955 when Buick went for volume—while dealers in cars under the medium price class cut each other's throats.

In one area of the business, anyone asking around the NADA meeting got near-unanimous response: The compact cars have bitten deeply and perhaps permanently into the used car market, resulting in a softening of used car prices.

It is less clear what has happened to the market for imported cars, and for Rambler and Lark. For every dealer

handling an imported make who says his business has been hurt a bit, you'll find one with the opposite story. You hear Valiant and Falcon dealers tell about taking Ramblers and Larks in trade; and you hear Earl L. Palmer, who sells Ramblers in Buffalo, say his January sales are higher than last year and that he expects a 30% increase for the entire year.

II. Calm Customers

As was to be expected in such new and different vehicles, the Big Three compact cars have had some engineering bugs and complaints over quality—although Ford's Falcon seems to be practically free of them. The dealers, however, are startled by the calmness with which the customers are taking adjustments—as if they expected them.

The Corvair, because of the complex engineering around rear engine and transmission, has had a rash of broken fan belts and complaints over carburetor icing. But Chevrolet moved in quickly to correct the difficulties. Complaints on the Valiant mostly concern quality, but a Baltimore dealer has sold 40 since late December "with no real service problems."

The profits on the Big Three compact cars have been good, with sales at full list price the rule until the past few weeks. A New Jersey Valiant dealer on the fringe of the Camden-Philadelphia metropolitan area says he hears of Valiant discounts up to \$100, although he has not experienced them. It's an uncommon Ford dealer who hasn't been discounting his Falcons about \$100, and at least some Corvair dealers trim more than that off the label price. That, says one dealer, is because the Corvair price is too high in relation to the cheapest Chevy.

Rambler and Lark discounts seem to be running about the same as last year; and that could be up to \$250 off the label price, depending on equipment. The Falcon discounts worry one Studebaker dealer, who says others at the convention share his concern. He's afraid Ford is winding up for an all-out price "blitz" to maintain its 1959 leadership over Chevrolet—an intention firmly denied by Ford Div.'s Wright.

It could be that the Studebaker man—and others who voiced the traditional lament that there is no ethics in the auto business any more—were looking for things to worry about because the path for the future seemed too smooth. No dealer seemed sure of which way the market would go; which kind and size of cars would get "hot" and stay that way—and none seemed to care. For they all either now sell cars spanning the "can't-miss" price ranges, or they will when the new line of smaller cars comes out this year (page 84).

It wasn't the deals themselves that were tried in federal court, but Guterma's failure to file SEC reports on them.

The Justice Dept. won a big victory last week when Alexander L. Guterma, who made headlines as a financial operator, was convicted by a jury in a New York federal court.

Guterma was convicted of conspiring to defraud the United States in failing to file required reports with the Securities & Exchange Commission on the tangled finances of the now-bankrupt F. L. Jacobs Co., the auto parts maker he once controlled. He faces maximum penalties of 35 years in jail, \$160,000 in fines.

If the conviction is not upset by Guterma's appeal, it means that the Justice Dept. has an important new weapon to use as a protective device against financial operators who take over a company, strip it of its assets, and then unload on an uninformed public.

• **New Legal Weapon**—There's no federal law that directly protects the public in such situations so that the government had to find a new way of bringing the facts before the court. It did this by charging that Guterma's failure to report what he was doing amounted to defrauding the U.S., since it hampered SEC in its responsibility for protecting the investing public.

"The government's case," says one attorney, "was just like getting Al Capone for income tax evasion."

Guterma's appeal will challenge the government's case that he sought to defraud the U.S. If this novel indictment can stick, there is no doubt that the Justice Dept. will be able to step in whenever the SEC suspects manipulative activities and does not find them in the reports that companies must file. For the government's whole case is based on Guterma's failure to meet SEC regulations, not on his operations.

• **Cases Pending**—Guterma's conviction, though, revolved around his operations at Jacobs. He still has to stand trial on three other criminal indictments:

• For alleged fraud in the offer and sale of United Dye & Chemical Corp. shares in 1956 and 1957, when he controlled that company. His co-defendants include Pierre A. DuVal, writer of an investment letter, and Virgil D. Dardi, who was associated with the late Serge Rubinstein and who subsequently took over from Guterma as head of United Dye, changing its name to Chemoil Industries, Inc.

How the U. S. Got Guterma Convicted



Alexander L. Guterma

- **For alleged fraud involving Bon Ami Co.,** another company he once controlled. He is accused of bilking Bon Ami of more than \$600,000. The same indictment also charges him with violations of U.S. banking laws in transactions with George Heaney, deposed president of the Security National Bank of Long Island (BW—Feb. 21 '59, p27).

- **For alleged failure to register as an agent of the Dominican Republic's Rafael Trujillo.** Guterma allegedly got \$750,000 from Trujillo about a year ago, just before his empire collapsed, for a promise to provide propaganda over the Mutual Broadcasting System, Inc., which he then controlled (BW—Mar. 28 '59, p110).

I. Modus Operandi

The New York trial revealed that Guterma was an audacious operator, particularly adept at covering up his maneuvers. Occasionally, he left a trail that the investigators could follow. Yet with all the evidence, covering more than 5,000 pages, the U.S. Attorney's office in New York admits that its investigators have not been able to untangle the web that Guterma wove when he was in command of F. L. Jacobs. What's more, they don't know what he did with the funds he got.

Similarly, Jacobs' trustees, after close to a full year of work, still haven't completely figured out just what the company's assets and liabilities are, and how much Guterma managed to take for himself.

"Tracing everything Guterma did," says Asst. U.S. Attorney David Bicks, "might take 10 years. A few of the more obvious operations came to light

when the auditors were able to get at the books."

- **Nature of Charges**—Bicks points out that Guterma wasn't tried for bilking F. L. Jacobs, or even for juggling its books, but for failing to report to SEC what he was doing.

To get a conviction, though, the government had to prove he had a motive for concealing his activities. And its investigators managed to show, in broad detail, the nature of some of his more flagrant operations. In each case, Guterma's modus operandi was to shuffle around assets—especially stock certificates endorsed in loans—among various companies he controlled.

- **Juggling Assets**—Guterma must have shown the skill of a sleight-of-hand magician, for no one at Jacobs could keep track of what he was doing. Justice argued, however, that assets were being juggled so they could eventually reach Guterma himself—or a holding company called Comfidor, Inc.

Comfidor, Inc., which was a defendant in the trial and was convicted along with Guterma, is a shadowy outfit. Guterma admits to being a "substantial" bondholder, but its list of stockholders has never been located, so no one knows, for sure, who actually owns it. The government was able to convince the jury that Guterma and Comfidor were one and the same.

II. Typical Deals

The government's testimony disclosed one typical series of deals involving Comfidor, Guterma, and Jacobs. Jacobs acquired shares of Scranton Lace Co., later renamed Scranton Corp. This acquisition carried control of Hal Roach Studios and its subsidiary, Mutual Broadcasting. In all, Jacobs obtained about 96,900 shares of Scranton stock, either by outright cash payments or through an exchange of assets. The average price was \$22.04 a share, making a total investment of \$2.2-million.

- **Winners and Losers**—By laborious checking of stock certificate numbers, government investigators found that all but 300 of the Scranton shares were pledged to high-rate money lenders as collateral for loans—at interest rates of 2% a month or more. Some \$1.7-million was raised this way between February, 1958, and January, 1959.

According to the government's witnesses, F. L. Jacobs got \$543,000; Guterma got \$98,000, and Comfidor got \$1.1-million. So far, there's no record of what became of the \$1.2-million received by Comfidor and Guterma.

The victims in this operation, as it turned out, were mainly the money

lenders, because they had no way of getting back the funds they had advanced. In other cases, Guterma has been charged with borrowing from high-rate lenders, then allowing them to dump the shares on the market in what amounts to an unregistered secondary offering. Scranton went bankrupt and its shares became worthless; only 30,000 shares held by money lenders were dumped beforehand.

- **Fast Shuffle**—Guterma's machinations—one attorney describes him as "a near genius in finance"—were based, in part, on his control of several companies. For example, the government presented evidence that he managed a fast shuffle with a \$250,000 loan that Comfidor made to Thompson-Starrett Co., Inc., an engineering firm.

On the surface, this was a normal transaction. But Guterma took the note that Thompson-Starrett had signed and transferred it to Jacobs in settlement of a debt owed by Comfidor (the two companies were continually borrowing from each other). However, Guterma never informed Thompson-Starrett that the note had changed hands. When it came due and was paid off, Guterma as head of Jacobs gave the note back, but Comfidor kept the cash.

- **Carpet Caper**—But the most high-handed scheme of all, according to Jerome J. Londin, U.S. attorney in charge of the prosecution, was an operation that, in true whodunit fashion, is described as the "Classic Carpet caper."

According to the government, Classic Carpet Corp., an outfit of unknown origin and ownership that kept its checkbooks in Guterma's office, had an inventory of fiber automobile mats that F. L. Jacobs wanted to buy. So Guterma got Jacobs to issue about \$1.1-million in letters of credit to Classic Carpet to cover delivery. These letters were discounted by Classic Carpet in a normal way through the Sears, Roebuck pension fund for just over \$1-million.

The government's investigators showed that about half of the mat inventory that Jacobs bought from Classic Carpet already belonged to one of Jacobs' own subsidiaries. Moreover, Jacobs, which had shelled out \$1.1-million for the mats, realized only \$35,000 when it sold them.

The government was not able to prove that Guterma controlled Classic Carpet; its ownership is altogether unknown. But there is no doubt that Guterma—and Comfidor—profited most from the deal between Classic, Jacobs, and Sears. Of the \$1.1-million that Jacobs put up, Guterma pocketed \$66,000, Comfidor got \$373,000, and Chat-

ham Corp., which was definitely established as a Guterma holding company, got \$250,000.

Jacobs, which had put up the money in the first place, was the loser. On its books, Jacobs got back \$230,000 from its own discounted notes. In addition, Comficor gave it \$75,000, supposedly in payment of a debt. But in return, Jacobs forked over a Swiss bank account, worth \$310,000, to Comficor.

III. Case for the Defense

Despite all the evidence massed against Guterma, his lawyer, Richard H. Wels, thinks there is a good chance that the conviction will be reversed in the Court of Appeals. Wels points out that the SEC regulations requiring "insider" reports, annual reports, and other company information, which Guterma was accused of violating, have never been used in a criminal case before; he questions if they are sufficiently precise to be the basis of a criminal indictment.

Wels indicates that he plans to try to punch holes in the government case, point by point; he strongly implies that the U.S. attorneys juggled figures to prove that Guterma was required to report on what he was doing.

- **Interpretation**—For instance, SEC rules state that listed companies—F. L. Jacobs was and still is listed on the New York Stock Exchange, though it is suspended from trading—must report any "significant" disposition of assets. "Significant" is defined as anything with a net book value of more than 15% of a company's assets.

Wels says that, at the trial, even the government witnesses could not agree on just what this regulation means. Wels is confident that Guterma's conviction on charges of willfully hindering Jacobs from filing 8-K reports will be thrown out.

- **To Be Sentenced**—Whatever happens in the Appeals Court, it is likely that the case will drag on for years.

At present, Guterma is in the Federal House of Detention in New York awaiting sentencing on Feb. 17. As soon as he is sentenced and notice of appeal is filed, he will probably be released on bail once again.

- **Rebuilding Jacobs**—F. L. Jacobs, meanwhile, is starting to make progress toward rehabilitation. Jacobs' court-appointed trustees plan to ask the NYSE shortly to allow trading in the stock to resume. They also expect to have enough information by Feb. 15 to file a final audit on the company's financial condition through last July.

Once that's done, the way should be clear for the trustees to put through their reorganization plan, which would merge Jacobs with some other company that can take advantage of Jacobs' substantial tax-loss carry forward.



INSURGENTS behind Algiers barricades wait for battle that never came. Finally . . .

De Gaulle Wins for M

His real problem is to bring the Army under control; his new near-dictatorial powers may not be enough to do it.

Stung by last week's Algerian insurrection and its direct challenge to his authority, Pres. Charles de Gaulle this week called a special session of the National Assembly in Paris and demanded the right to rule France for the next 12 months almost exclusively by Presidential decree. Having obtained this power, de Gaulle got ready to remove several Cabinet members who had infuriated him with their lukewarm support at the height of last week's showdown.

By assuming something close to dictatorial power, de Gaulle figures he has a chance to impose his will on the French Army officers who remained neutral while insurgent European civilians in Algeria defied orders from Paris for a full week. De Gaulle knows better than anyone else that the important thing about the insurrection was not the rebellious mood of the civilians but the attitude of the Army—its bitter hostility to his policy of self-determination for Algeria.

- **First Skirmish?**—On the surface, of course, de Gaulle has won a victory. His backing in France is stronger than ever. Even in Algiers, the center of the whole affair, life is back to normal this week (pictures). The civilian insurgent leaders are either in jail or on the run. The downtown streets, ripped up last week to form barricades, have been repaved. In Army headquarters high above the city, the main preoc-

cupation once again is fighting the war against the National Liberation Front (FLN).

Yet, behind this facade of normalcy, as de Gaulle well knows, lurks the possibility that what happened last week could happen again—that this was only the first skirmish in a major battle that will have to be fought out between de Gaulle and the Army officers in Algeria. Some observers believe disaffection is so widespread in the Army he may never be able to bring it under control.

- **Potential Saboteurs**—To be sure, it is unlikely that the Army will go along with another civilian insurrection in the near future. But between them, the Army officers and the European diehards still are in a position to sabotage any attempt by de Gaulle to end the war and base an Algerian settlement on the principle of self-determination.

As long as that remains the situation, the war is likely to go on. And as long as the war goes on, France will remain politically explosive and unpredictable as an ally for the U.S. and the other Western powers. This is the consensus in Washington, London, and Bonn, despite the expression of relief that de Gaulle came through this crisis.

- **A Nation's Glory**—For the General, there is more at stake in all this than a settlement of the five-year conflict between France and the FLN. De Gaulle has larger ideas: a burning ambition to see France reestablished as a world power capable of dealing in its own right even with the Soviet Union.

Ever since he came back to power, the Algerian problem has been a stumbling block. It has compromised his



... bulldozer clears paving stones as rebels scatter and Army belatedly enforces order.

for Now, Faces Test Later

internal economic reforms and held up modernization of his Army. What's more, French fighting in Algeria has been a black mark on de Gaulle's otherwise enlightened policy in former French Moslem territories such as Morocco and Tunisia, as well as in French West Africa. In this part of Black Africa, the tide of nationalism is pushing the former French colonies away from partnership with France and toward complete independence.

In short, until de Gaulle finds a way out of the Algerian maze, he has to shelve his grandiose ambitions for France. Even the explosion of France's first atomic bomb, planned for this month in a remote region of the Sahara, reportedly has been put off as a result of the Algerian crisis.

• **Restive Officers**—The crux of the Algerian problem—at least on the French side—remains the attitude of the French Army. The first dramatic demonstration of the fact came in May, 1958, when dissident officers in Algiers virtually overthrew the Fourth Republic and brought de Gaulle to power. At that time, the officers felt de Gaulle was their best guarantee that Algeria would remain French.

This faith in de Gaulle first began to waver seriously last September, when the General came out with his self-determination policy for Algeria. He promised that once a cease-fire could be arranged with the FLN, the nation's political future would be decided by a referendum.

The 1-million European settlers in Algeria, together with the 10-million Moslems, could vote among three alternative solutions—outright independence,

a loose political association with France, or complete integration with France.

• **Bitter Pill**—This policy was hard for the Army to swallow. To many officers, it looked as if de Gaulle had double-crossed them. Both Army and civilian leaders in Algeria know that the bulk of Algeria's Moslems would vote for independence if given the chance to do so. As for "association," the Army feels this would mean independence by stages, as it is in the case of the states in French West Africa.

Until last week's blowup, de Gaulle had made some effort to take Army opinion into account. For example, he sounded out Army feelings before announcing his Algerian policy in September. And, as a result, he softened his self-determination theme to the extent of warning that France might partition Algeria between French and Moslems if a majority of Moslems voted for independence. De Gaulle also stated flatly that, whatever the case may be, France would hang on to its Sahara oil fields.

• **The Crisis Comes**—But Army officers refused last fall to take de Gaulle's self-determination seriously enough. Many of them felt that it was largely a diplomatic maneuver aimed at international opinion; they grudgingly accepted the policy as a necessary part of de Gaulle's attempt to build up French power and influence within the Atlantic Alliance. In any case, the issue never came to a head. For the FLN refused to agree on the terms for a cease-fire as the first step toward a referendum.

Early this month, however, the Army finally decided that de Gaulle meant business. Then, in effect, they precipi-

tated the crisis by having Gen. Massau, hero of the French paratroops, openly challenge de Gaulle's policy via a carefully staged press interview.

• **Election Trouble**—If de Gaulle has brought the Army to heel for the present, he hasn't brought the dissident officers any closer to accepting his solution for the Algerian problem. In fact, the Army seems to feel that it has wrung some concessions from de Gaulle.

In his nationwide TV appearance last week, the General again refused any political talk with the FLN until there was a cease-fire, thus reassuring some Army officers. He also indicated that he would like to see Algeria integrated with France. Still more important, he promised the Army that when a referendum is held "you will have to guarantee its complete and genuine freedom."

Few observers can imagine the French Army supervising freely held elections in which FLN leaders would have the right to campaign. In thus assuring the Army that his Algerian policy depended on them, de Gaulle gave Army leaders the feeling that he was backing down under pressure. It was at that point that the officers agreed to put down the civilian insurgents—though de Gaulle also had presented them with a choice between a show of obedience and civil war.

This, of course, could be a miscalculation by the Army. When de Gaulle asked the Assembly this week to strengthen his powers greatly he seemed to be girding for a future showdown over Algerian policy. Since he has solid support in France itself, the only reason for seeking additional power is to use it where his support is in question—in Algeria. One thing he must do there is build a stronger civilian administration so that the Army doesn't run the whole show.

• **Next Crisis?**—A new showdown probably would come whenever the FLN agreed to a cease-fire, for at that point de Gaulle would have to prove he could make the Army follow orders. But the FLN leaders apparently have decided to fight on indefinitely. They are planning to strengthen their military forces, relying partly on an international brigade recruited from a dozen or more African countries, some of them in the French Community.

By adopting this course, say some observers, the FLN leaders are playing right into the hands of the French Army. According to this view, de Gaulle represents the one hope for Algerian independence in the foreseeable future. By holding out, the FLN may eventually bring de Gaulle down. Although the General's position in France has never been stronger than it is today, sooner or later it will erode if he cannot bring peace to Algeria.

A Sampling of Pessimists

"In December, the rosy-outlook boys couldn't see a cloud in the sky unless it were the fact that there would be a little less homebuilding. Now I think there's a great deal more questioning of the outlook . . ."

—A Boston life insurance vice-president

"A danger exists that a rapid rise in consumption in the first half of 1960, partly due to a high level of steel production, could lead business to overproduce . . ."

—A Philadelphia utility officer

"I see danger of a recession after the election unless Congress takes some definite steps to relieve the money problems . . ."

—A Texas banker

"When inventory building tapers off after the first half, what will take its place?"

Washington economist

Real Business Bears Are Hard to

Despite Wall Street's sag, great majority of businessmen remain highly optimistic for 1960, even 1961; but a search did turn up a bearish minority. Here's the way these business bears see things through their dark brown glasses.

As the quotations above suggest, there is an active school of thought around the nation that doesn't think the business boom is all it's cracked up to be.

Last week, BUSINESS WEEK reporters set out to find these pessimists—and to learn why they are worried. In fact, the pessimists were not easy to find—except in and around Wall Street. The great majority of businessmen, BUSINESS WEEK's survey indicated, are highly optimistic about the prospects for 1960, and even for 1961.

To be sure, since the business trend and the stock market parted company at the beginning of January, there has been considerably more questioning about the longer term business outlook. And there's a good amount of annoyance with Wall Street among businessmen—concern lest a sagging market transmit uncertainty and gloom to the rest of the economy, cause a slowing of consumer spending for luxury goods or of business spending for expansion.

• **Two-Faced Month**—Most businessmen, however, think the stock market has relatively little effect on general business. Many of those interviewed were inclined to charge the growth of bearishness last month to nothing more than typical January blues. January,

they said, is the two-faced month—the month of letdown after Christmas cheer and end-of-the-year boom predictions, the month when the next six months look fine but the second half is still wrapped in fog, the month of chilblains, head colds, and budget balancing. This year it was also the month of political crisis in France and North Africa, a month when Presidential aspirants were beginning to expose all the perils that faced the nation—perils that would be aggravated if certain other politicians achieved high office.

In Wall Street itself, financial correspondents found the change of mood more startling than the actual performance of the market. Yet even there bearishness, though plentiful, is moderate under the skin—at least for the majority. Stockmarket bears say, "Sure, good business was expected in the first half, and now it's a fact of life, and it's already being discounted."

• **Pure Breed**—The dominant breeds of bear turned up by BUSINESS WEEK reporters were, thus, stockmarket bears, seasonal-January bears, and political bears. However, they did find, in small numbers, some purebred business bears. The composite business bear, and the reasons for his pessimism, can be put together from many of the interviews:

Q: Don't you think the economy has shown remarkable strength despite the steel strike?

A: Not particularly. As a matter of fact, I don't see any evidence that the economy was expanding much in the second half of 1959. I admit it's hard to separate the effects of the steel strike from other developments. But look at 1959's third quarter, when the strike had very limited effect on business activity. With or without a strike, you would have had a drop in inventories. Total spending on construction, declining since last May mainly because of a shortage of funds, would have kept slipping. Plant and equipment spending showed only a slight advance. Those three key trends would have made fourth-quarter business awfully uncertain. The steel strike disguised the true situation; it transformed the inventory problem from a source of weakness to a source of strength for future business. And it probably helped to keep business confidence high by concealing unfavorable trends in the economy.

Q: Well then, would you say the strike was really a good thing and has enabled us to get over a sticky period and get back on the track to a stronger expansion?

A: Maybe for a little while—provided, of course, conflict between labor and management in the coming months doesn't seriously interrupt production. But what is behind the rise that we are already experiencing? Inventory building, that's about all. I admit that's a strong push. Steel stocks fell during the

"There is such a concerted effort from all quarters to publicly announce the boom that it makes me suspicious they are talking up business and whistling in the dark."
—A Detroit securities dealer

"We're still optimistic about 1960 but appreciate that a stock market decline could act as a psychological depressant on the economy."

—A Cleveland paint manufacturer

"January is a sobering month, a time to tame wild optimism and be a little apprehensive about people spending what they haven't got and may not be able to get."

—A Chicago savings & loan official

"The current boom is largely due to inventory rebuilding and won't last much beyond midyear."

—A Milwaukee manufacturer

BUSINESS WEEK

Hard to Find—But Stubborn

strike to their lowest levels in the post-war period. Auto pipelines had to be filled up. This will give us a strong shove forward. But steel inventories are bouncing back to normal faster than anybody expected. And auto sales have been less than Detroit looked for, so those record rates of output we are getting now will have to come down.

Q: But all this output is putting more money into consumers' pockets. Don't you think this will make consumption rise and thus keep the business cycle moving upward?

A: Well, certainly consumption is going to rise. But I doubt that it will keep increasing. When the fast rise in incomes we're getting now because of inventory building tapers off, I just don't see what will keep consumption climbing. I don't think consumers are going to do anything extra for you. Remember that plenty of workers are still trying to make up for the loss of income during the steel strike. And don't forget the heavy burden of debt consumers are already carrying.

Q: But don't you think capital spending will pick up in the second half and offset the inventory showdown?

A: I do expect capital spending to rise in the second half, but not enough to make up for the slowdown in inventory building. The latest Commerce Dept.-SEC survey of plant and equipment outlays (BW—Dec. 12 '59, p. 26) doesn't show much genuine expansionary strength. Your own McGraw-Hill capital spending survey only projects a 10% rise this year—and we've already

had more than half that. All right, suppose you do get another \$1-billion or \$2-billion increase in the second half. That's not going to offset a drop in inventory building from around a \$10-billion rate in the first half to maybe a \$2-billion rate in the second.

Q: Well, I don't know if those figures will turn out to be right, but aren't there other sources of strength? What about government?

A: State and local government expenditures will be rising—at an annual rate of \$3-billion. But the federal government won't do anything for you. Don't forget that over-balanced budget Eisenhower submitted will have a contracting effect on business. Eisenhower says he wants a \$4.2-billion surplus in fiscal 1961—which starts on July 1 this year. That figure understates the contracting effect—because the surplus in the government's cash budget (which includes all the funds the government takes out of and puts back into the economy) will be more like \$6-billion.

Q: But are those figures realistic? Will the Democrats let Eisenhower run a surplus of that size?

A: Maybe not. But I do know you are not going to have much, if any, increase in real government spending, and I'll bet you don't get a tax cut. At very most, I think you'd have to treat the federal budget as neutral—with no extra push in it.

Q: What about foreign business? Europe's booming. Won't that help?

A: Maybe a little. But remember that foreign competition is growing tougher

all the time. And what it means in particular is a squeeze on U.S. prices. Maybe we've brought our prices under control. But that doesn't mean we've brought our costs under control. Wages are still rising, and so are other costs. This is going to mean a squeeze on profits—and you won't get a capital spending boom out of that. Bear in mind, too, that, even though business may soften a bit, we're likely to have tight money and high interest rates with us anyhow—because of the foreign situation.

Q: What do you mean?

A: Well, the U.S. has been losing gold because of the deficit in our balance of payments. If we dropped our interest rates lower than European countries where a stronger boom warrants higher interest rate policies, we would have to worry about hot money—call it short-term funds if you want to be polite—running away from New York, weakening us further. The monetary authorities will have to keep money tight to prevent that.

Q: So you think we're headed for a recession that we can't avoid?

A: I do. I don't know whether it will come before the end of the year or some time in 1961. And I think that's what the stock market is saying.

Q: What would make you happy now?

A: A promise that you won't quote me by name.

Q: You realize you're in a rather small minority?

A: I am used to that.



JOINT ECONOMIC COMMITTEE heard arguments about Eisenhower policies. Democrats made little progress in . . .

Search for an Economic Issue

Economists generally agreed with the Administration's forecasts, and the Democrats couldn't build up much steam.

Every political strategist in Washington agrees that this is the year for the Democrats to call for a showdown in their seven-year running battle with Eisenhower over economic policy.

With control of the White House and Congress at stake in November, the Democrats desperately need economic issues that can offset the prosperity theme of the Republicans. And, by all the political guidebooks, the time to start was this week at hearings held by the Joint Economic Committee of Congress.

• **No Sharp Split**—The charter of the committee calls for it to review the President's economic message to Congress, particularly to see if the goals of the Employment Act of 1946 are being attained. In the past, the hearings have often served as a forum in which Republicans and Democrats sharpened their differences, choosing up sides on key issues.

At midweek, however, the expected collision was not developing. Instead

of setting the stage for a fundamental election-year split on economic policy, the hearings were generating a significant amount of agreement, not only about the business outlook but also about government policy for 1960. Here are the two most important areas of agreement:

Business should show a solid rise this year, to \$510-billion of gross national product—as estimated by the Administration—or perhaps higher.

A panel of economists from government and private life concurred in this view, and Democrats on the committee showed no signs of dissenting, despite their past policy of accusing the Administration of being overly optimistic.

The \$4.2-billion surplus foreseen by Eisenhower for the next fiscal year should definitely be assigned to debt reduction, as he urged.

In prosperous times, even larger surpluses would be desirable, committee chairman Paul Douglas (D-Ill.) observed during an exchange with William McC. Martin, chairman of the Federal Reserve Board. He apparently slammed the door against higher spending, which some Democrats have been urging.

• **Committee Line**—Differences, and

not agreements, will, of course, be emphasized when the committee majority draws up its recommendations for Congress later this month. But it's fairly plain that what Douglas and the other Democrats have chiefly in mind for their report is merely another assault on tight money—a theme they have been hammering almost from the day Eisenhower entered the White House.

Martin was subjected to a bitter and, at times, angry attack when he testified in defense of the Federal Reserve's credit policies. It was the only time during the early days of the hearings when the Democrats showed more than a casual interest in questioning witnesses.

Out of 10 Democratic members, only three regularly attended the sessions—Douglas, Rep. Wright Patman (D-Tex.), and Rep. Henry Reuss (D-Wis.). All three are consistent critics of Martin and the Federal Reserve. Republican attendance was also light. Out of six members, only Rep. Thomas B. Curtis (R-Mo.) and Rep. Clarence E. Kilburn (R-N. Y.) attended with any regularity.

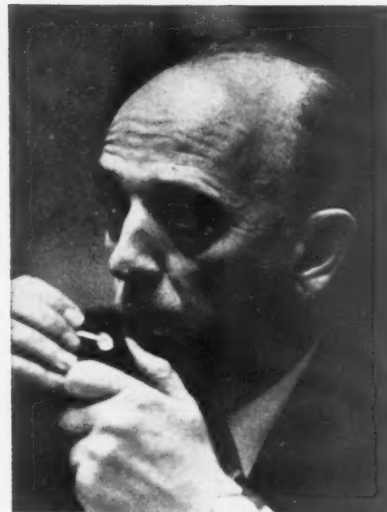
Treasury Secy. Robert B. Anderson, the chief economic spokesman for the Administration and prime target for the Democrats, did not appear as originally



MARTIN GAINSBROUGH of NICB predicted GNP of \$510-billion to \$520-billion.



LOUIS PARADISO of Commerce Dept. said 1% of the gain would be price rises.



ROY REIERSON of Bankers Trust testified credit policy hasn't stunted growth.

scheduled, and this may have lessened committee interest. Anderson will testify later.

I. Economists' Views

As in previous years, the committee opened the hearings by calling in a panel of economists to discuss the business outlook. The Democrats' embarrassment was immediately apparent: If anything, the panelists thought the Administration might be on the low side. In reply to a direct question by Douglas, Martin Gainsbrugh of the National Industrial Conference Board said he thought GNP would likely be \$510-billion to \$520-billion.

George Cline Smith of the F. W. Dodge Corp. agreed with the \$510-billion estimate, and Peter Henle of the AFL-CIO also said he expected output to be near that figure.

Louis J. Paradiso of the Commerce Dept.'s Office of Business Economics also put in a vote for \$510-billion. When pressed by Douglas to estimate how much of the projected \$31-billion increase over 1958 would be due to price increases, Paradiso gave 1% as his personal guess. Other panelists agreed.

This would leave real growth, as measured by GNP, at around 5.5% this year, on top of a 6.7% gain last year. Not even the Democrats on the economic committee recommend an average growth rate higher than 4.5%, so they found nothing here with which to belabor the Administration.

• Segments of Economy—Only housing—which Smith expects to drop about 8% below last year—and agriculture emerged from the opening day's discussion as weak points in 1960.

Smith, who took a look at both construction and consumer spending at the request of the committee, estimated

consumers would spend around \$330-billion for the year as a whole. This implies a rise from a fourth-quarter 1959 rate of \$317-billion to a fourth-quarter rate this year of \$340-billion. Allowing for a population growth of 3-million and a 2% price rise—which Smith said was probably too high—this would still represent a 3% gain in real living standards for the year. That's well above the average gain for the past decade.

Gainsbrugh rated the rise in plant and equipment spending by industry as the most favorable element in the outlook. One previous postwar boom in capital goods spending lasted 15 quarters, and another lasted 10 quarters, he told the committee. In the present cycle, spending has risen for only four quarters so far, which leads Gainsbrugh to believe the push will continue into 1961.

• Credit Restriction—Rep. Curtis (R.-Mo.), with an eye on Democratic critics of tight money, asked Gainsbrugh if lack of credit could slow down business spending plans. No, Gainsbrugh replied—nine out of 10 companies surveyed by the Conference Board expect to finance capital spending wholly from profits, depreciation allowances, and other internal sources.

Curtis asked his question against the background of a long analysis of recent monetary history presented by Roy L. Reierison, vice-president and chief economist of the Bankers Trust Co. of New York. With the aid of colored slides, Reierison showed the committee that, despite the restrictive policy of the Federal Reserve, loans and investments of commercial banks have increased as fast as GNP has grown, and faster than GNP when adjusted for price rises. This, Reierison added, is proof that "credit policy has not retarded the growth of the economy."

• Unemployment—Henle raised what was perhaps the most nearly disturbing note from the panelists. He predicted that, while unemployment would drop during the year, he could not see it dipping below a range of 4.7% to 5.2% of the labor force—which would be higher than in any other postwar boom. Traditionally, Democrats might be expected to react strongly to this line of testimony, but they barely questioned Henle.

II. Democrats vs. Martin

The assault on Martin is nothing new from the Democrats involved—Douglas, Patman, and Reuss. All have tangled with him repeatedly in the past, and on the same issues that they brought up this week.

Douglas, for example, believes that when conditions call for credit ease, expansion of commercial bank reserves should be achieved through open market operations and not through a lowering of reserve ratios, which Martin favors. Douglas also opposes Martin's policy of limiting open market operations to short-term bills.

• New York Bank—In a long exchange on this subject, Martin refused to say what officials of the New York Federal Reserve District Bank think about the bills-only policy.

"I'm shocked," Douglas broke in. "For the first time, I am really shocked." In effect, he warned Martin not to try to change the stenographic record of the session, apparently because he felt Martin had made a damaging admission. Over the years, some officials of the New York district bank have been critical of the bills-only policy, but Martin said that, broadly speaking, they "agree we've been operating the right way."

Tranquilizer Makers Put On Spot

● The postwar wonder drugs have brought boom to the ethical drug companies—but now there are a few headaches.

● Amid Sen. Kefauver's probe into the industry's profits and prices, the Justice Dept. filed antitrust charges against two producers of the widely used tranquilizers.

● No specific legislation has so far been recommended, but there's talk of more controls on drug advertising and promotion.

The U.S. drug industry, suffering an attack of Kefauveritis and experiencing adverse side reactions, was in need of a tranquilizer itself this week. It was beginning to pay the price of success—having to live increasingly under the watchful eye of Washington.

The point was driven in dramatically when the Justice Dept. slapped the makers of Miltown and Equanil with an antitrust complaint on the very day they were defending themselves before the Senate antitrust subcommittee.

• **Ignored at First**—Until recently, the government left the ethical drug industry pretty much alone. It blossomed in the postwar years from a stable, small-scale branch of the chemical industry into a \$2-billion-a-year business. The emergence of wonder drugs—antibiotics, tranquilizers, drugs for arthritis and diabetes—put a premium on discovery and flexibility. The government did not seem inclined to interfere.

But the Salk vaccine victory over polio in the early days of the Eisenhower Administration was followed in 1958 by the first government intervention—an antitrust case charging identical bids on government contracts for the vaccine. The government lost this case when a federal judge ruled that the government's own rules on bids produced the price quotations.

Then the Federal Trade Commission moved against the drug makers, in a case just now being wound up by an FTC examiner in New York. The charge: that five companies agreed to let Chas. Pfizer & Co., Inc., get an antibiotic patent in return for exclusive licenses and that fraudulent documents were used to get the patent.

• **Kefauver Accuses**—But it has been Sen. Kefauver's anti-monopoly subcommittee that has put the whole industry under attack. In his hearings on the steroids and tranquilizers, Kefauver hit hard at these charges:

• That profits in drugs are higher

than in any other industry, even after discounting the high cost of research and promotion.

• That the consumer has little choice in what—or whether—he buys.

• That prices on a successful patented product can be set almost at will in many cases.

• That public interest makes drugs as necessary as a public utility. But high costs hit people who are apt to be least able to pay—the aged and the ill.

• **Justice Joins In**—Kefauver's position got a terrific and unexpected boost when the Justice Dept. jumped in again last week. Drawing on evidence developed by a New York grand jury, the department charged Carter Products, Inc. (Miltown) and American Home Products Corp. (Equanil) with price fixing, using a patent to restrict competition, and agreeing to decide between themselves who else can use the basic ingredient in meprobamate tranquilizers as a component in other drugs.

The timing of the civil suit—in the midst of hearings—was perplexing. Apparently Justice had tried to spring it before the hearings started. Antitrust officials had asked the committee for a look at subpoenaed documents two weeks before but had been turned down. Unable to beat the committee to the punch, they filed suit while the company presidents were on the stand.

• **What Must Be Proved**—The antitrusters asked that Carter dedicate its patent rights to general use, or at least license all qualified applicants upon payment of reasonable royalties. Experts in antitrust law pointed out, however, that Justice by no means has an airtight case. It has to prove that in the agreement by which Carter licenses American Home Products to make the tranquilizer there are restrictions above and beyond patent rights—such as on prices.

American Home Products officials, who stand to lose a major position in the \$280-million tranquilizer market if

the Justice Department wins its case, have not, as yet, chosen to comment on the latest government antitrust action. Carter Products spokesmen, however, flatly deny the government complaint.

Legal counsel is already working on Carter's official reply, which is due February 16, one top official states and expects to meet the deadline.

Ironically, if Carter kept its legal patent monopoly for itself, the antitrusters would have no case at all. Antitrust trouble can arise only when an agreement is entered into with another company. Carter licensed American Home Products apparently because Carter lacked the sales force to promote the tranquilizer properly.

Kefauver made public evidence that the two concerns have "invariably" submitted identical bids on meprobamate "down to a thousandth of a cent" in sales to government hospitals, although American Home Products' costs are higher because of royalties it pays Carter.

• **Into Summer**—Kefauver will keep the pressure on well into the spring and summer. Starting Feb. 23, he will question general representatives of the industry. Then the investigators will get back to specific products—first antibiotics, then anti-diabetic drugs, perhaps vaccines and vitamins.

The length of the Senate hearings means that no legislation is likely to be recommended until next year. Nor is there any agreement among committee members yet on what kind of legislation might alleviate the problem.

One idea would be to give the doctor confidence that he could prescribe a generic chemical name instead of a brand name, since small manufacturers often sell comparable products for less than big ones, as the steroid hearings demonstrated.

• **Ads Under Scrutiny**—Several senators have shown special interest in drug business advertising and promotion. There is more thought of requiring advance government clearance for the scientific claims made for new drugs.

FTC is under pressure to take a look at ethical drug advertising—which the agency has virtually ignored in the past, on the ground that doctors and druggists are experts and would not be taken in by false advertising. But two top medical researchers testified in the hearings that tranquilizer advertising aimed at physicians is often misleading.

Kefauver sees a need for clarifying a shadow area of responsibility between FTC, charged with prosecuting deceptive ads, and FDA, which has the technical knowledge of what drugs can and can't do.

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In Business

. . .

Compact Cars Join Horsepower Race, Offer Bigger Engines as Options

Detroit has started a new lap of the horsepower race, this time with the new compact cars. These were the announcements, timed to precede the start of the Daytona Beach races last week:

Chevrolet's Corvair is offering options that raise horsepower to 95 from 80, plus racing-type brakes and suspension and a four-speed transmission.

Chrysler's Valiant can be "specially ordered" with a 148-hp. engine instead of the standard 101 hp.

Rambler American offers a "custom" series equipped with the 125-hp. engine of the larger Ramblers. For the American, 90 hp. is standard.

Ford's Falcon, now 90 hp., may offer "100 hp. or more," according to James O. Wright, general manager of Ford Div.

In 1957, the Automobile Manufacturers Assn. clamped down on promotion of horsepower claims and on open assistance to racing teams. Some observers feel the announced options may bring charges of ignoring this edict.

. . .

Law to Control Toxic Colors Expected Before Deadline of Ban

A new postponement of the Food & Drug Administration ban on toxic colors in lipstick and in products for internal consumption has made it very likely that Congress will have time to pass a bill permitting controlled use of the colors.

The Washington consensus was that the bill would get through, now that the industry lobbyists accepted the inevitability of a "no cancer" clause in any possible bill. Last week, the House concluded hearings on a bill passed by the Senate.

The food industry was also worried by a proposed ban on polyethylene wrap. Makers of the packaging material believe they have licked the problem of toxic substances getting into meat, and FDA approval is expected before the Mar. 6 deadline on additives.

. . .

Export Grain Rates to Great Lakes Cut by Two Western Railroads

For the first time since the completion of the St. Lawrence Seaway last year, Western railroads have cut export rates to Great Lakes ports. The Chicago & North Western Ry. and the Chicago, Milwaukee, St. Paul & Pacific last week knocked 17% off their export rates on grain. This undoubtedly signals a rate war, probably extending to other commodities.

Under existing rates, it has occasionally been cheaper

to use Atlantic or Gulf ports rather than Great Lakes ports, despite the greater distances. Competition has been most intense for grain. When the Seaway put a dent in grain exports from Atlantic ports, the Eastern railroads cut their rates in mid-season and won back some of the traffic. Now that the Western roads have acted, the lines serving Gulf ports will probably tag along.

. . .

Rojtman Steps Down at J. I. Case; He and Company Call It His Own Idea

J. I. Case Co.'s recent posture of aggressive expansionism eased off a bit this week with the announcement that Marc B. Rojtmán had stepped out as president and chief executive officer. His successor is William J. Grede, chairman of the Case executive committee for the past three years, who founded and is chairman of Grede Foundries, Inc.

Case announced that Rojtmán had assumed "the important new position" of special adviser to the president and executive committee. Outsiders in the industry leaped to the conclusion that Rojtmán was considering projects that looked too ambitious and costly to the 118-year-old company's executive committee.

However, Grede and Rojtmán both insist the change was at Rojtmán's own request. According to Grede, it was to "free Mr. Rojtmán from detail and routine administration. Rojtmán is Case's largest single stockholder, with holdings estimated at \$5-million.

. . .

Eden Roc to Move Out of Shadow

When Miami Beach's Fontainebleau Hotel built a 14-story addition last summer, it got more than 400 rooms; and its tower very neatly put the pool and cabana area of the adjacent Eden Roc in the afternoon shade.

After resorting to legal maneuvers and top stars to preserve his business (BW—Jan. 9'60, p33), the Eden Roc's Harry Mufson this week planned to buy his way out of the shadow for \$8-million.

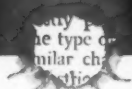
Back to back with the Fontainebleau's tower, Mufson plans an addition with 200 apartments. Then, beyond the Fontainebleau's longest shadow, he will build a new swimming pool and cabanas on land to be filled in. Construction is to start in April.

. . .

Stretching Out the "Hot Metal" Run

Aluminum Co. of America has signed its first "hot metal" contract with the automobile industry. Alcoa's Warrick smelter, near Evansville, Ind., will turn the molten metal over to General Motors which will truck it by special rigs and pots over the 110 winding, hilly miles to GM's casting plant at Bedford, Ind.

The length of the carry indicates a breakthrough in transportation of molten metal. Reynolds Metals, which has delivered molten aluminum to auto plants for eight years, has stayed within a 10-mile range.



Anyone for Russian Roulette?

Hit-or-miss modernization planning is as dangerous as Russian Roulette. Here's why.

The biggest technological revolution in history is already under way. And current predictions indicate that in 1960, two-thirds of all capital spending will be for modernization!

It would cost over \$10 billion just to replace today's obsolete metalworking equipment — and the total U. S. industrial modernization requirement adds up to \$95 billion!

Meanwhile, the Communist powers are making a strong and disciplined bid to out-produce us — to plow us under in the hot war of industrial competition.

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WASHINGTON OUTLOOK

WASHINGTON
BUREAU
FEB. 6, 1960



Democrats bid to fan anti-Republican sentiment in the Farm Belt. Their big hope for recapturing the White House this year depends on getting favorable response in the rural Midwest to Democratic promises of drastic new measures to bolster the sagging agricultural economy.

Fresh political reports from the Midwest encourage the Democrats.

Five GOP Senate seats in the Farm Belt are in jeopardy. This estimate comes from top Republican Party strategists. They now concede that Sens. Andrew Schoeppel of Kansas, Carl Curtis of Nebraska, Karl Mundt of South Dakota, and Gordon Allott of Colorado face tough reelection fights. Additionally, the GOP is nervous about its prospects for retaining the Iowa Senate position to be given up at the end of this year by Thomas Martin. The situation also dampens Republican hopes for making substantial House gains.

Now note the first big Democratic move in Congress to cash in on Farm Belt unrest. The hope is to recreate a situation similar to that of 1948 when the Corn Belt states rebelled against the GOP and defeated Thomas E. Dewey in his bid for the Presidency:

A "Brannan Plan" calling for a \$150-million hog price subsidy is being readied for a vote in the House. The vote will come in the near future, with the blessing of Speaker Sam Rayburn.

This is an exercise in political maneuvering—nothing more. There is little chance of Congressional passage. In any event, an Eisenhower veto would kill the bill short of its becoming law.

Many Democrats acknowledge this fact. But more important from their viewpoint is the opportunity to argue in the Midwest that they at least tried to do something direct and dramatic for the farmer's pocketbook.

There is political risk in this approach, a fact that some Democrats—especially those from urban areas—are quick to point out.

City consumer resistance to costly farm support programs has been building up steadily in recent years. City congressmen of both parties are allergic to farm legislative proposals that will cost the taxpayers more, and Republicans will attack the hog subsidy scheme on these grounds. The Democratic gamble is that this argument will not catch on. If it does, it could cost the party more support in the cities than it gains for Democrats in rural areas. The Democratic Congressional leadership is convinced that the risk is worth taking.

The farm maneuvering underscores an important Congressional trend.

Democratic reluctance to meet Eisenhower head-on is fading. A year ago, the Lyndon Johnson-Sam Rayburn leadership was using its influence to water down legislation that was objectionable to the President. The strategy was accommodation, compromise—an attempt to avert as many vetoes as possible. In the atmosphere of 1959, for example, it seems doubtful that Rayburn would have lent his personal blessing to a hog subsidy bill so clearly doomed.

There are other examples.

Democrats will invite more vetoes, hoping thus to sharpen up the differences between the two parties in approaching some of the larger public issues. The Congressional majority probably will draw its first veto soon, on

WASHINGTON OUTLOOK (Continued)

WASHINGTON
BUREAU
FEB. 6, 1960

a spending bill that would raise to \$90-million (from \$50-million) the annual federal outlay for abatement of stream pollution.

—●—

A major breakthrough on civil rights legislation now seems possible in this session of Congress. The major obstacle—refusal of the House Rules Committee to clear a bill for debate—likely will disappear during the next couple of weeks.

Emphasis will be on guaranty of Negro voting rights in the South. The Administration's new proposal, drafted by Atty. Gen. William P. Rogers and endorsed by Vice-Pres. Nixon, has quickly gained widespread favor in both parties. It proposes to use federal courts to guarantee Negro registration and voting rights, not only in elections for federal offices but for state and local elective jobs as well.

The Senate will be the crucial battleground. Whatever bill the House passes probably will be mild, generally ineffective. The drive for a "tough" measure will come in the Senate.

Senate Leader Johnson is the pivotal figure. Most of the feeling that this is the year for a major gain stems from a determination by both parties that such legislation is a 1960 "must." It also comes from Johnson's personal determination, as an unannounced but active Presidential candidate, to rid himself of a "Southern" label.

This week, Johnson got over his first 1960 political hurdle. The filing period for his Senate seat passed, and he drew no Democratic opponent back home in Texas. Thus relieved of the possibility of having to combat a racist opponent, Johnson now is in a good position to strike hard to shake off the regional political tag. He knows the best way to do this is to step out front in legislating a potent rights law.

—●—

Eisenhower's endorsement of Nixon for the Presidency causes new elation in the Vice-President's camp. The President, in his news conference at midweek, finally, stated what most observers have long since assumed to be a fact—that is, Nixon is his choice for the top spot on the GOP's 1960 ticket.

The timing of Eisenhower's remarks is noteworthy. The President spoke out within the week after a Nixon speech—as part of the Republican campaign kickoff dinners in 83 cities from coast to coast—that has been interpreted in some quarters as mildly critical of the Administration.

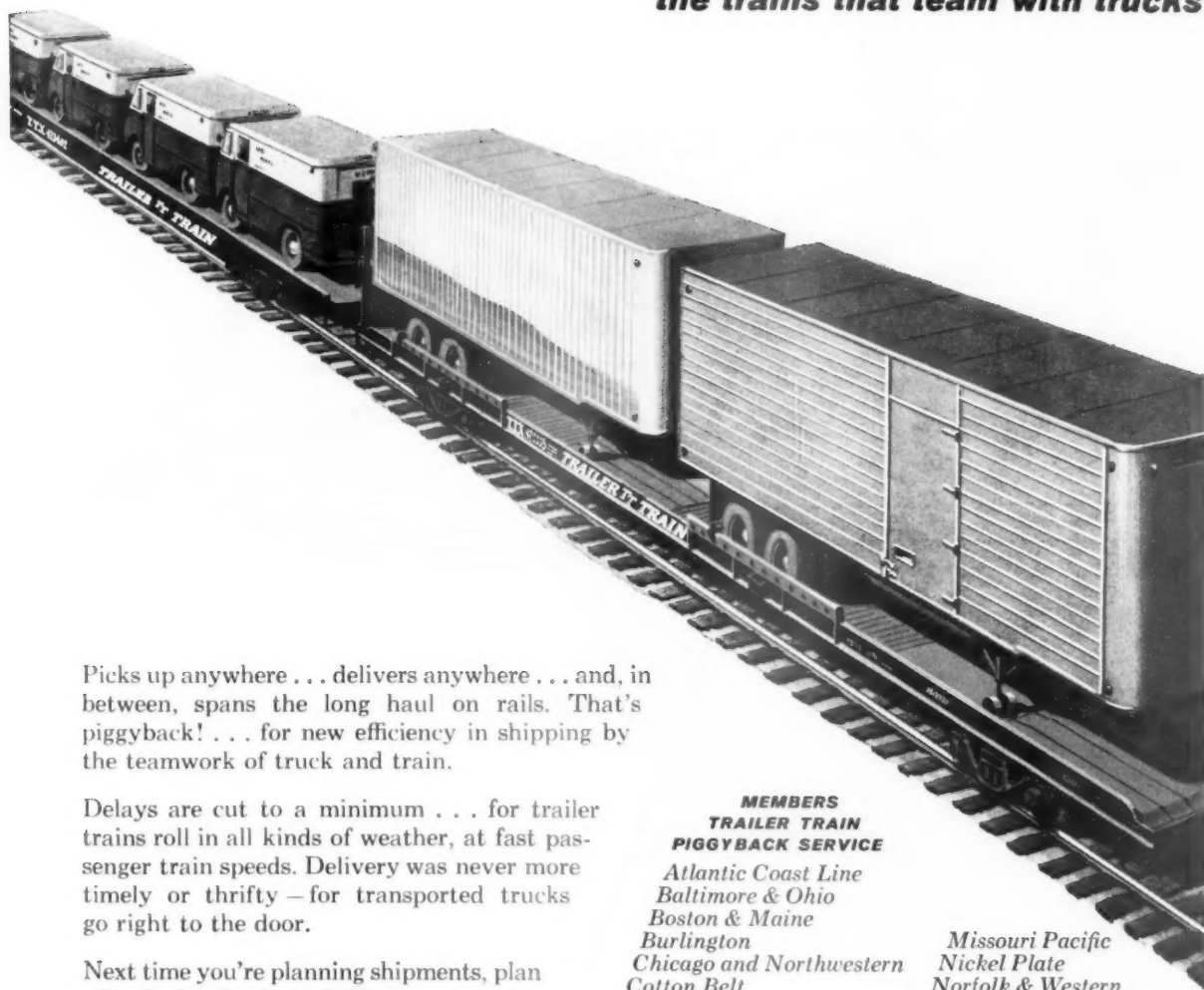
The Vice-President vowed, of course, to run on the Eisenhower record. But there was some delicately phrased language suggesting that Nixon, if he becomes President, will be more aggressive in certain areas—national defense, civil rights, aid to education, agricultural reform, social security. The Nixon people insisted all along that no criticism was intended. But they were relieved to get evidence out in public that Eisenhower agrees with them.

The GOP campaign start was financially auspicious. The 83 dinners, linked together by closed-circuit television, raised about \$5-million for the party. It was the biggest political thing of its kind ever. About \$2.5-million of the profit will come to the GOP National Committee in Washington for use in the Presidential, Senatorial, and House campaigns.

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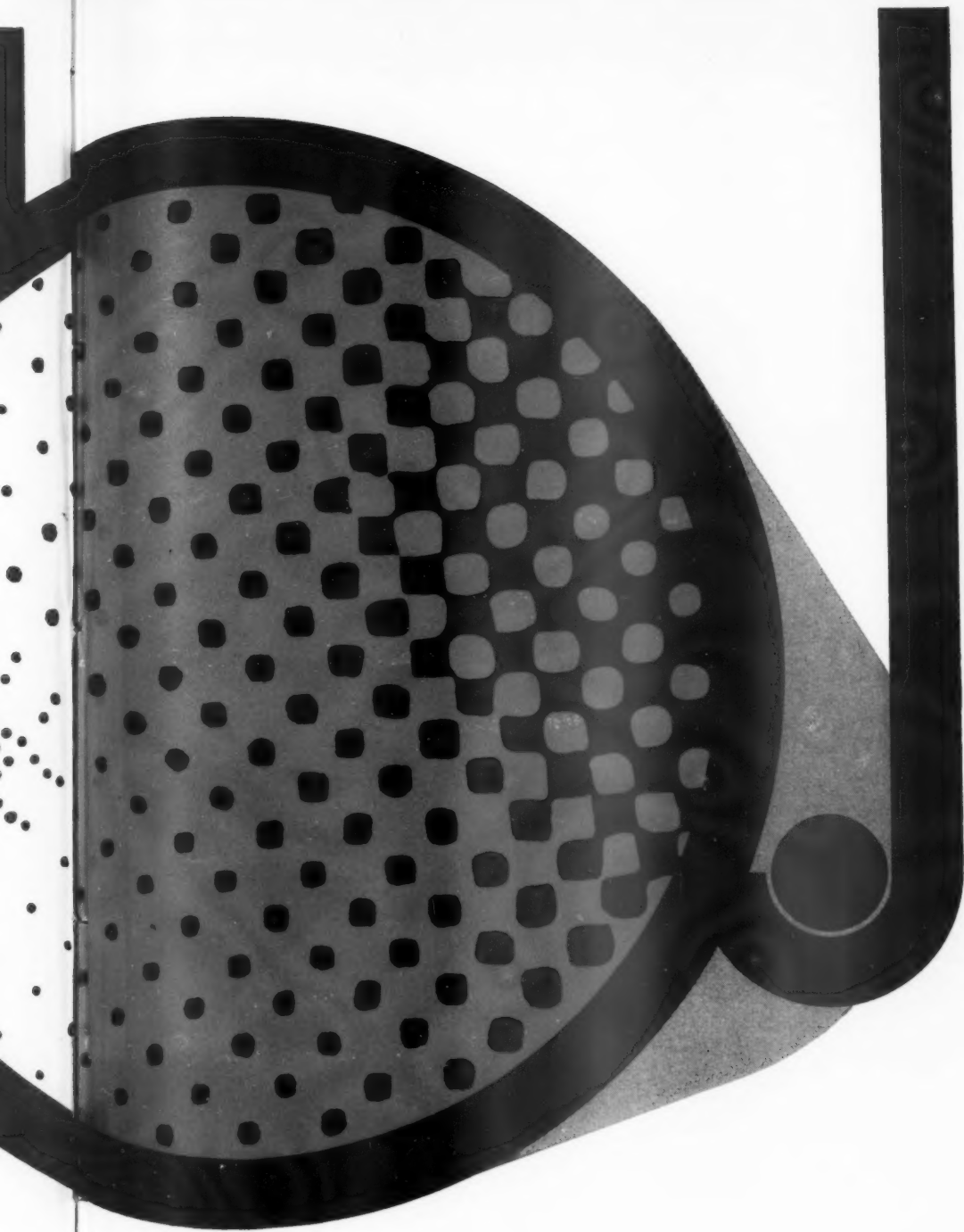
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BUSHEL OF CHECKS face one of the 2,000 Chase Manhattan clerks who process the bank's 1.5-million checks per day. Last year, U.S. banks processed 13-billion checks, worth \$4-trillion.

MECHANICAL SORTING will ease the paper problem. Right, a check is whisked past a magnetic reading head on an IBM sorter. Code number in magnetic ink makes mechanization possible. ➡

Machines Tackle Bank Paperwork

Trials have worked out well, and bankers—conservative as they may be—are ready to order machinery to process the rising volume of checks.

The ordinary bank check must be counted among the extreme examples of the flood of paper in which a modern industrial society is always threatening to drown. Thirteen-billion times a year someone signs a check. Every year the number of checks drawn increases by a billion or two. And each of these checks must, by conventional methods, be handled 10 to 20 times before it gets back into the canceled-check files of the man or company that drew it.

Every one of those checks is, for most purposes, money, and bankers must treat them with the same care as money itself. Besides, bankers are conservative by temperament, and more fascinated by the workings of the economic system than of an intricate piece of machinery. So it's understandable that the nation's banks have been slow to turn to machinery to handle checks.

It is now getting clear that 1960 is going to be the year when that reluctance is abandoned.

• **The Turning Point**—The break came last year, when check-handling machines (pictures) were actually seen to work and Bank of America began to get the bugs out of its difficult pioneering automation experiment, ERMA (BW-Oct.1'55,p141).

A year ago, the number of check-processing systems on order was negligible. Now, between 100 and 150 banks have ordered such systems at

prices ranging from \$217,400 to nearly \$2-million each, or corresponding monthly rentals from \$3,975 to nearly \$40,000. The bill is even more awesome for large banks. Last week, Radio Corp. of America announced sale of two RCA computer systems, with Burroughs Corp. check sorters, to Chase Manhattan Bank. The tab: \$2.1-million rent per year.

• **Dull Work**—Checks are processed by hordes of girls. They "prove" batches of checks—make sure each batch contains the checks that are listed—and separate a bank's own "on-us" checks from "transit" checks that go to other banks for collection. They sort "on-us" checks by individual account and post the amounts in the bank's books on mechanical or electronic accounting machines. Chase Manhattan alone employs 2,000 people to do this work on an average of 1.5-million checks a day.

This labor is made even more expensive by a high turnover rate. The work is dull, and the girls have a natural urge to leave for marriage and motherhood. Training new people is a further expense, and recruiting meets resistance.

• **Need Automation**—Automatic check-sorting and bookkeeping can cut the cost of this processing. Even if automation merely slowed the rise in cost, many bankers feel it would be worthwhile just to keep up with the fantastic growth in check volume.

That's why automation, to most bankers, means automatic check processing more than anything else. Electronic bookkeeping machines have been around for several years, and at least 20 banks already have computers to handle functions, such as payroll and stock transfers, that are analogous to com-

puter work in general business. Automating the biggest bottleneck—check handling—is what excites bank men.

• **High-Level Market**—Eight computer makers and two manufacturers of check-sorting machines are competing for this market. Despite its money value and importance, the market is not really large. A highly optimistic guess is that perhaps 800 of the 14,000 U.S. banks can afford automation. Most manufacturers are concentrating their sales effort on the 200 or 300 largest; RCA is sticking to the top 75.

Smaller banks will have to cooperate on joint computer installations or be serviced by their big correspondent banks if they want to reap the benefits of automation. First National Bank of Denver recently was the first to announce definite plans to process its small correspondent banks' checks on its equipment.

I. Check Equipment

To do away with human sorting and bookkeeping, you need three things: (1) a way for machines to read checks, (2) a machine to read and sort them, (3) a computer system to take information from the sorter and process it.

• **Magnetic Ink**—All present systems but one (Intelix Systems, Inc.) use Magnetic Ink Character Recognition (MICR) to meet the first requirement. MICR puts specially designed Arabic numerals identifying bank, account, and amount on each check in iron oxide ink. Each numeral puts out a different electric signal when placed in an electromagnetic field.

Agreement on MICR was achieved by an American Bankers Assn. committee that worked nearly five years to devise a standard system. It evaluated other systems: putting a check in a plastic envelope carrying a strip of magnetic tape to hold information (the Intelix way); attaching paper tape to each check and coding information in punched holes; printing information on the check in the form of fluorescent bars or dots, magnetic bars, or conventional numerals.

The committee found MICR the best combination of accuracy, reasonable tolerance (it's still extremely close), ease of printing, cost, resistance to mutilation, and acceptance by customers. It worked with committees of equipment makers and printers to draw specifications for the precise location and arrangement of MICR numbers on the bottom of the check, and for a type font whose characters could be read with least error by eye and machine.

• **Coding by Hand**—Checks must be



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prepared before they can go into a sorter. In MICR, the customer receives his checks already pre-printed with MICR bank and account numbers—a problem in itself for printers unused to working with tolerances to thousandths of an inch or to depositing the specific amount of iron oxide in each digit. The customer writes a check in the ordinary manner. When it's cashed, a bank employee reads the amount and encodes it on the check in magnetic ink. This is the only time a check is handled as in conventional processing.

Checks in a transit operation are simply sorted for the bank on which they're drawn and shipped out. "On-us" checks are sorted by account number for eventual return to the customer—after the sorter feeds the account number and amount of each check to a computer system that remembers the information, posts it to the customer's account on magnetic tape, and eventually prints bank records and customer statements. Some MICR systems can handle and post as many as 93,000 checks an hour—compared with 245 an hour conventionally.

• **Sorting Machine**—All MICR sorters transport the checks mechanically past magnetic reading heads that pick up the magnetic signals. The electronic components pass the information in the signals to a computer if required and tell the machine into which of a number of pockets the check goes.

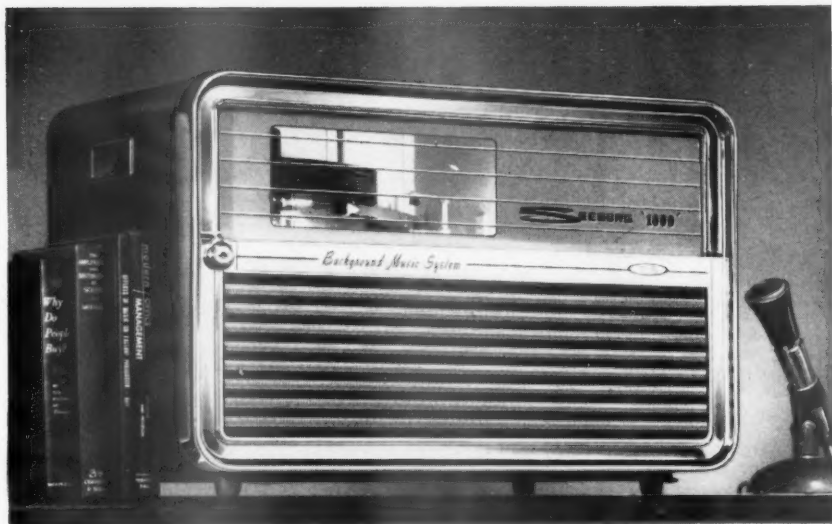
The various makes of sorters differ in speed (from 750 checks a minute to 1,560), number of pockets, design details, and electronic circuitry. Burroughs, International Business Machines Corp., General Electric Co., and National Cash Register Co.—the four computer makers who also make sorters—got into the business early as part of their over-all bank program. Ferranti-Packard, Ltd., and National Data Processing Corp. started later in a test program for the Federal Reserve System, which is also testing sorters by the other manufacturers. Pitney-Bowes, Inc., furnishes mechanical sorter elements to NCR, GE, and Ferranti.

• **Many Systems**—Most MICR computer systems have been adapted by their manufacturers from their general business computers. The main things this requires are a control unit to convert the sorter's electronic signal to the kind used in a computer, and facilities for searching the tape files to answer customer inquiries.

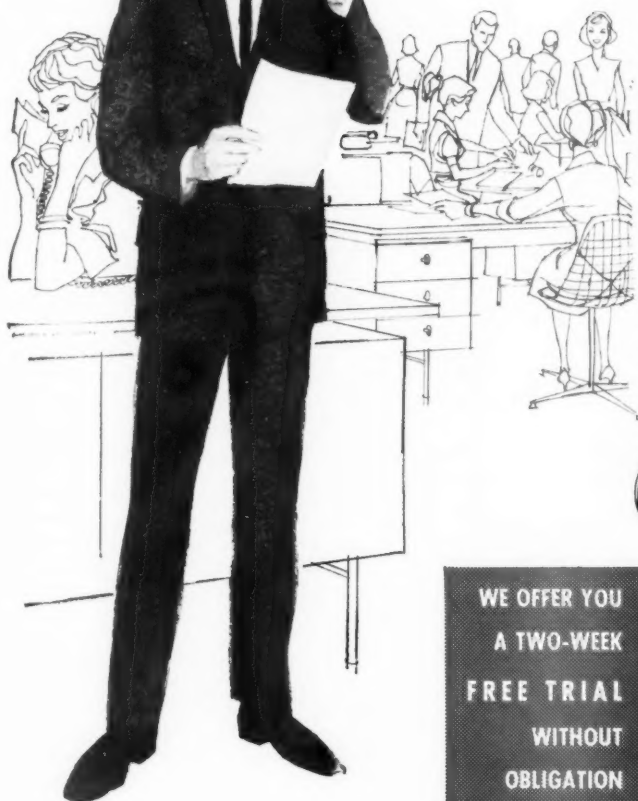
Exceptions are Burroughs and GE. Burroughs designed its Visible Record Computer just for banks—for economy (it's the cheapest bank machine) and for banks that don't want to give up their traditional hard-copy records. (Most computers keep records on magnetic tape and print few of the usual bank records.) Burroughs also sells its

REVOLUTIONARY in every respect

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The music libraries—arranged, programmed and recorded by Seeburg—are *custom-tailored*. Now, for the first time, you can have tailored music scientifically created for your *particular kind* of business.

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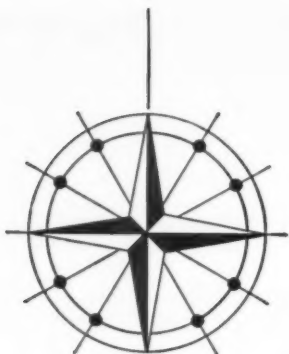
We are interested in a two-week free trial of the Seeburg Background Music System.

Name of Business.....

Address.....

City.....Zone.....State.....

Signed.....Title.....



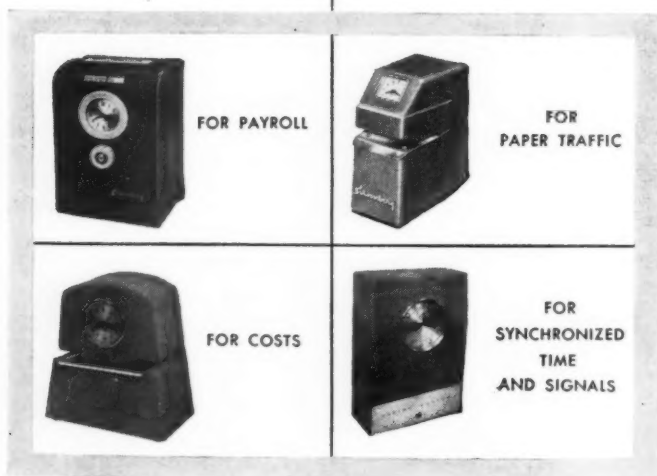
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standard computers for larger installations. GE's 210 computer system, for banks and utility billing, is a descendant of Bank of America's ERMA.

IBM, NCR, and Burroughs have an advantage in being traditional suppliers of bank machines. IBM is ahead of everybody else in both number of orders—it won't say how many—and variety of equipment; the remaining manufacturers—GE, RCA, Minneapolis-Honeywell Regulator Co., Sperry Rand Corp., and Intelix—think they can buck the traditional ones because of their reputations in electronics, if not in banking.

• **The Exception**—Intelix Systems, Inc., an International Telephone & Telegraph Corp. subsidiary, is the main holdout from MICR. Its check-handling system uses the plastic envelope-magnetic strip idea. It is building one for First National City Bank of New York and has sold another to Valley National Bank of Phoenix, Ariz. The New York bank got interested in the system before MICR was established, and it is officially sticking with it—though other bankers think it must change its mind as MICR spreads.

The Intelix system is somewhat more cumbersome than MICR because the check is present at each stage of bookkeeping, while MICR separates the data from the check. But Intelix feels its system lessens the possibility of error.

The Intelix system is potentially more flexible—if MICR becomes universal, a magnetic reader can read checks and encode digital information on the envelope; if MICR gives way to optical scanning, as a few engineers expect, an optical scanner can be used the same way. Thus, Intelix users would be ahead of the game while MICR users were re-tooling.

II. Bank Reactions

Only a handful of banks will install check-processing equipment before 1961, and only Bank of America has automated sorting right now. There's a one- to two-year lag in most deliveries. But you have to start revising your methods and putting MICR numbers on checks well in advance, in order to fill the equipment pipeline when you get it. Banks that feel ready for automation have put in from one to four years' study and have a good idea of what the benefits and problems will be.

• **Advantages**—A BUSINESS WEEK survey of bank automation leaders confirms that the prime advantages are to keep up with growth and to cut labor costs. This shift from manpower to machine will trouble banks less than, say, steelmakers. There's enough normal turnover and upgrading so that nobody will lose his job—even in one



Changing old ideas on earth moving...

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bank that will cut its check-handling payroll by 40%.

The third big advantage of automation is better information. Partly by building better identification—such as location or industrial classification—into account numbers and partly just by using the capabilities of high-speed computers, banks expect to find out things they don't know or have a hard time discovering. One example: quick analysis of new account location and branch business to plan the location of new branches. Another: easier determination of service charges on the basis of a big account's activity.

Some banks failed to anticipate another benefit that has come about—the saving on space and building costs in new branches when centralization of check-processing eliminates the need for expanded bookkeeping facilities.

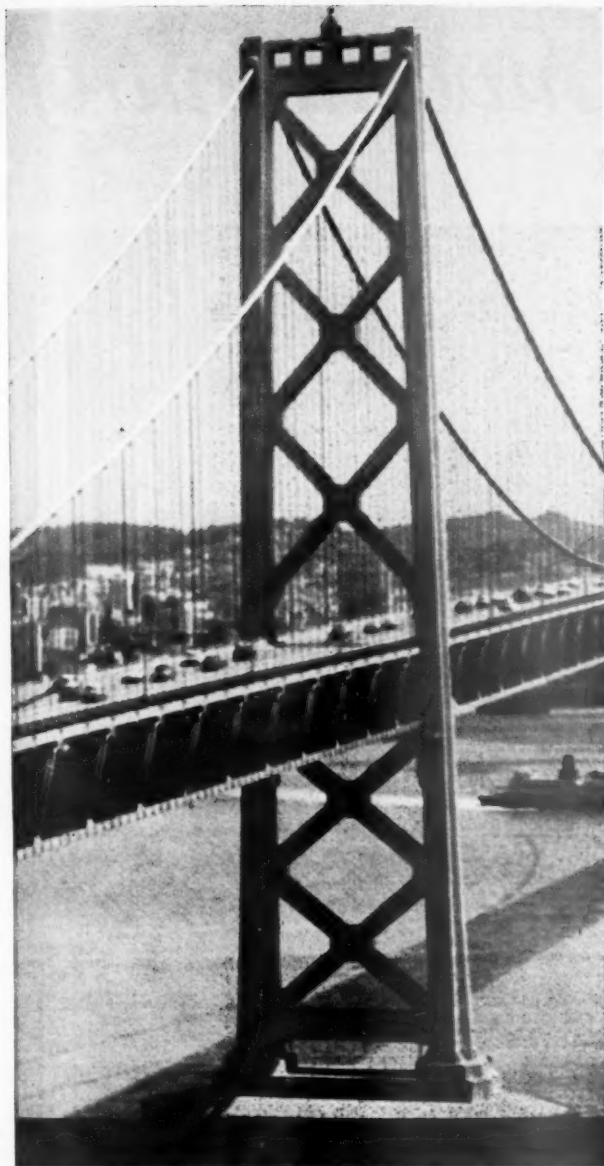
Last but not least among the advantages is the headstart that automatic check-processing gives to the automation of other functions. Very large banks find that stock transfers and personal loans require separate computers, but the work done on checks may show what mistakes should be avoided in another process. Many banks expect to put such functions as personal loans on their check-handling systems—either by adopting MICR forms for loan payments or by using some other form of input to the same computer.

• **How Big?**—The top problem is the question of economics. One rule of thumb is that any bank with 30,000 accounts can afford to automate. This would include most banks with deposits of \$150-million or more—about the top 180 banks. But the rule is constantly being liberalized. Several banks with deposits as small as \$75-million are automating, and a handful of banks at the \$15-million level think even they can afford it.

Payout estimates on the huge investment in bank machines vary with the way savings are figured. Most banks feel equipment will start paying off almost immediately. Forecasts on how long payout will take vary from one year to four. Bank of America says it will pay for the \$30-million ERMA system out of operating savings in six or seven years.

• **Objections**—Once a bank is convinced it can afford automation, it may have trouble with die-hard officers who don't believe in a change. Bank leaders say they've solved this and all other problems by anticipating them and training in depth before the machines arrive.

One of the commonest internal objections is to the lack of visible records in favor of magnetic tape. Many MICR systems provide hard copies only of the daily journal of all transactions. Customers' statements are picked up



You wouldn't build half a bridge . . .

Like a bridge, a business transaction isn't worth much until it's completed . . . when your invoice is paid.

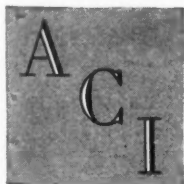
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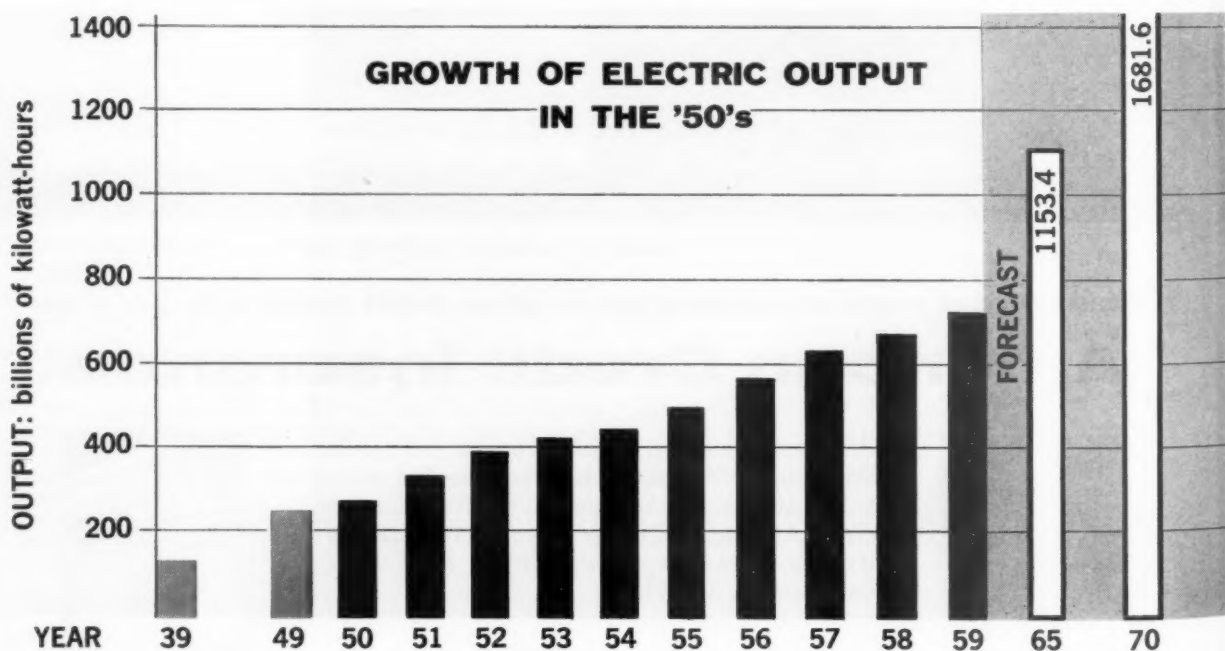
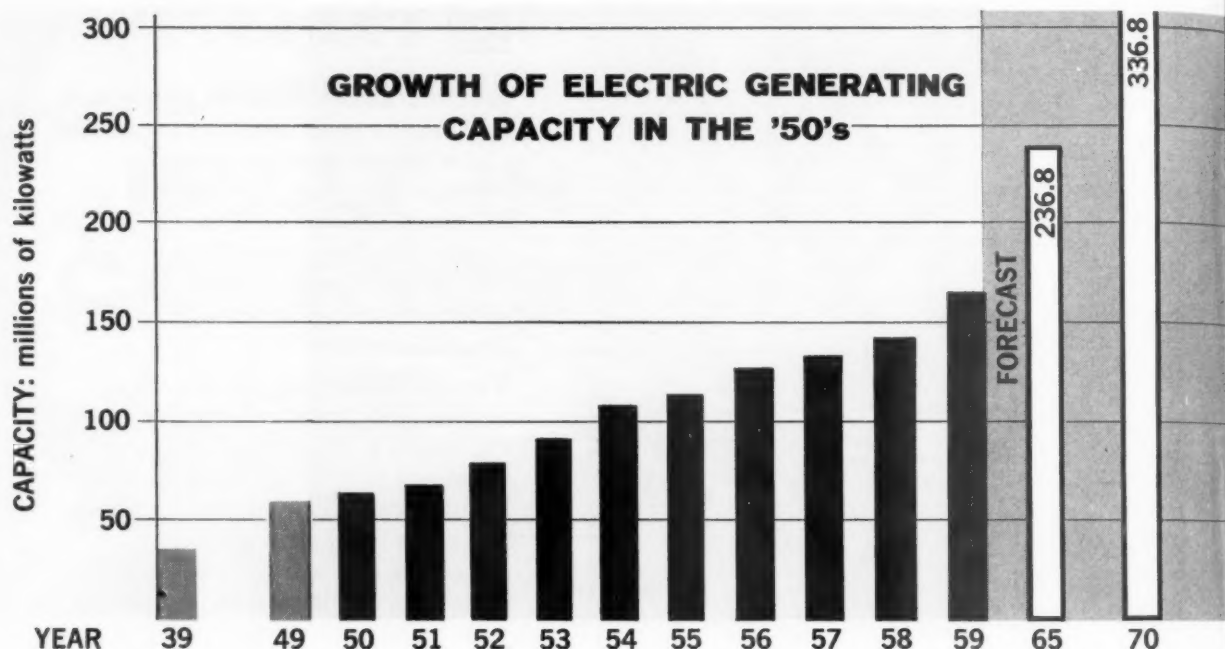


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One word, more than any other, underlies the vast rate of expansion in U. S. productive capacity and U. S. progress toward ever easier and pleasanter living. That word is **ELECTRICITY**. With about 6 per cent of the world's population, the United States produces nearly 40 per cent of the world's electric energy . . . and more than three times as much as the U.S.S.R., the next largest producer.

The decade of the fifties witnessed spectacular progress in the production and use of electrical energy, made possible by an investment of nearly \$40 billion for construction of utility facilities. Almost half of this huge sum was spent for generating facilities, increasing the industry's installed capacity by 150 per cent. In other words—in this one decade—the industry installed two and a half times the capacity it had achieved in the seven previous decades of its existence.

Who has benefited

As a result of this vast expansion, the electrical power used by the average American factory worker today is equivalent to the muscular energy of nearly 300 men . . . and the average American housewife utilizes the electrical equivalent of several servants in the performance of her household chores. Ten years ago, the average annual residential consumption of electricity was 1830 kw-hr. Last year it was 3563, nearly twice as much . . . and the predicted figure for 1970 is 7,000. The country's total use of electrical energy in the fifties was nearly two and a half times as much as in the previous decade.

How about the cost of electricity

An even more remarkable aspect of the industry's record of growth and achievement is the degree to which cost to the consumer has been kept down. Despite rate increases in recent years, and the necessity for further increases in the years ahead, the average residential rate per kw-hr the country over has followed a consistently down-

ward trend and last year was lower than in any preceding year. The ability of the industry to resist the inflationary trend, which has so greatly increased the cost of virtually all other products, has been due, in part, to ever increasing demand, but also it reflects the persistent and effective efforts of utilities and their equipment suppliers to increase efficiency and thus reduce costs of generation and distribution.

Combustion's role

In the achievement of higher efficiency, Combustion Engineering has played an important part. For C-E research and development has been responsible for many of the notable advances in boiler design which have increased generating efficiency. No wonder then that C-E boilers account for a very substantial part—over 40 per cent—of the new steam-generated capacity installed in the past decade. And steam-generated capacity accounts, presently, for about 80 per cent of total utility capacity.

A current example of C-E design achievement is a boiler recently placed in operation at the Eddystone Station of the Philadelphia Electric Company designed to produce steam at the highest pressure and temperature ever used in commercial power practice (5000 lbs. per sq. in. and 1200 deg. F.). By so doing, this station will utilize less fuel to produce a kilowatt-hour than any other power station in the world.

What lies ahead

And now a look at the future. As the charts opposite show, the next decade promises to far exceed the one just past in expansion of capacity and the use of electricity in homes and industry. Through continued emphasis on research and development, Combustion is planning to assist its utility customers in accomplishing their most important objective—the ever more efficient and economical generation of electricity.

"Electricity sparks the '60's" will be the theme of National Electrical Week, February 7-13.

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CANCER DETERRENTS are sought in one of the largest drug evaluation programs in the world at Southern Research Institute, Birmingham, Alabama. Southern Research Institute engages in many other types of research, with more than 100 sponsored projects currently under way. Among these are studies of new metals for missiles, the effects of atomic radiation on chemical reactions and new processes for desalting sea water.

The last half of the twentieth century belongs to the South!

MAHOGANY enters the United States at Pensacola, Florida, for sawing at Weis-Fricker Mahogany Company. This firm is one of the country's largest importers of Central and South American mahogany for use in the production of furniture and boats.

GOLF CARTS FOR RECREATION AND INDUSTRY. E-Z-Go Car Corporation, Augusta, Georgia, is America's largest exclusive manufacturer of electric golf carts. Originally designed as pleasure vehicles, these carts are finding increasing uses in industry.

CLAY, PLentiful IN THE SOUTH, is used for a wide variety of products. W. S. Dickey Clay Manufacturing Company, with plants at Meridian, Mississippi and elsewhere, is the largest producer of sanitary sewer pipe in this country.

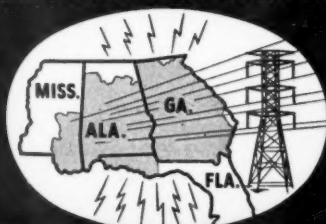


Research leads in the growth of the South

Outstanding research is being done in company laboratories and private research centers, Southern universities and colleges. All major research areas are receiving attention, through extensive fundamental and applied investigations in medicine, electronics, atomic energy, agriculture and other new fields that are contributing so importantly to the amazing growth of the South.

The Southern Company and its operating companies are constant and active participants in research to provide ample electric power economically produced and distributed. Every day new facilities are added to meet the ever-growing electrical needs of the dynamic Southland. So they may be ready for utilization of atomic power in the South when economically feasible these companies also are participating in the development of nuclear power plants.

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from tape files instead of from general ledgers.

External problems are those of relations with other banks and with customers. Most banks plan to automate "on-us" check handling first, because they don't know when enough other banks will have MICR to make transit automation possible. Even when it is, some bankers will be unhappy about having another bank encode the amounts of their checks as part of proving a batch of checks in transit, though errors would seem to be no more likely in one bank than another.

• **Customer Relations**—The main problem in customer relations is with large business accounts that print their own checks. They must be gently persuaded to redesign their checks for MICR. Also, many MICR systems print customer statements that show only the old balance, number of checks and deposits, and new balance—no list of checks. Some customers don't like this.

U. S. National Bank in Portland had a complaint from IBM world headquarters about the short form it was using—but IBM withdrew with a red face when the bank pointed out that the form was an IBM-machine product.

A few individual customers get fidgety about the MICR numbers. One bank cheerfully provided new account numbers for a couple of lady numerologists who thought their original numbers disagreed with their stars.

III. How to Choose

In choosing computers, as in picking any other equipment, you try to get the most for what you can pay. The question is what constitutes the most.

Some banks get thick books of proposals from half a dozen manufacturers, with bids and the computer makers' ideas on how to automate. Others work out their own systems and then find out how much it will cost to put them into hardware. If you find several equipment makers who can do the job you want at comparable costs, other factors must then be compared.

• **Points to Consider**—The most important of these are the availability of similar equipment nearby in case your computer breaks down; the company's ability to provide service, and previous experience with other equipment by the same manufacturer.

IBM's lead in sales reflects an advantage on all three counts, though many electronics men feel other computers are technically superior. Wachovia Bank & Trust Co. of Winston-Salem, N. C., one of the pioneers in bank automation, chose IBM equipment primarily for these reasons, regarding everything else as equal.

Burroughs is in second place behind IBM primarily because of the attractive

price of its Visible Record Computer, and because it has the fastest sorter.

NCR has sold the most sorters, largely because it built the first operating ones for the ERMA system.

• **Typical Study**—Chase Manhattan, whose order of two RCA 501s is considered a major event in bank automation, started its automation study in August, 1958, after an abortive experiment in designing its own computer, Diana (the fair huntress, of course, is the goddess of the Chase).

The bank traditionally was highly decentralized with many branches, and the first order of business was to decide that centralized data processing made the most sense. By last September, the bank had issued an internal report recommending this and favoring what its experts considered, for it, a "medium-scale" computer. The RCA 501, the GE 150 (now called 210), Honeywell 800, IBM 7070, NCR 304, Burroughs 220, and Univac Solid-State 80 computers all fell in this class, though many of them are considered large-scale in the computer business.

A Chase committee reported on check design in November, and a month later recommended specific equipment—quick work as bank automation goes. The committee had had some specifications in mind from the start—it designed its own system and found out from the manufacturers what it would cost to build. In some cases, this necessitated telling the manufacturer that his equipment could be used in ways he didn't think possible or desirable. (U. S. National of Portland did much the same thing in assembling its own automation system from available computer equipment before the manufacturers had gotten very far into banking applications.)

• **Making the Choice**—RCA's cost was the lowest, taking into account a Chase requirement of two computers in case one should break down—though one 501 could handle the bank's work on a double shift. RCA had the disadvantage of not having a sorter of its own. RCA says it will hook up with any sorter a bank wants, but in this case it is made responsible for maintaining the Chase's Burroughs-made equipment.

The system includes the two 501s; five control converters, two to link up the eight sorters to the computers and three to control the high-speed printers for bank records and customer statements; 30 unit encoders, and 100 proving machine-encoders. It will start operating in 1961 and be complete by 1964.

Chase has no present plans to put other bank functions on the 501s. It will acquire a Univac Solid-State 80 with card punch printer for stock transfer work, and it already has an IBM 650 for processing payroll and employee benefits and for training personnel. **END**

Profits Bring Smiles—and a Tear

PERCENT CHANGE FROM 1958

Company	FOURTH QUARTER 1959		FULL YEAR 1959		1959 Net Income (Thousands of dollars)
	Sales	Net	Sales	Net	
Air Reduction Co.	+ 6.5%	— 5.2%	+14.4%	+ 11.2%	\$14,851
Alan Wood Steel	+163.7	+ 41.6	+49.5	+130.3	4,856
Allied Chemical	+ 6.9	— 4.4	+13.2	+ 46.2	50,041
American Viscose	— 12.1	— 0.3	+10.5	+119.2	15,231
Armco Steel	— 3.0	— 26.5	+17.9	+ 33.6	76,850
Bethlehem Steel	— 22.8	— 42.8	+ 2.5	— 14.9	117,236
Braniff Airways	— 1.3	— 73.3	+ 6.6	— 15.9	2,502
Caterpillar Tractor	+ 33.4	— 0.9	+26.8	+ 44.3	46,518
Cooper-Bessemer	+ 29.6	+ 57.3	+27.1	+ 64.0	5,426
Copperweld Steel	+ 23.6	+ 28.7	+47.9	+187.0	5,972
Crown Zellerbach	+ 4.7	+ 5.8	+11.2	+ 18.3	39,329
Crucible Steel	— 29.8	—115.9	+17.6	+ 42.8	6,106
Ferro Corp.	+ 1.5	+ 2.7	+13.2	+ 67.7	3,331
Freeport Sulphur	N.A.	— 11.4	N.A.	+ 10.7	14,478
Gen. Tel. & Electron.	+ 33.8	+ 25.3	+24.3	+ 22.5	72,000
Ideal Cement	— 2.2	— 13.2	+10.9	+ 10.6	20,525
Inland Steel	— 21.5	— 13.0	+ 7.9	+ 1.0	48,354
Int'l Bus. Machines.	+ 20.6	+ 26.5	+11.6	+ 15.4	145,633
Johns-Manville	+ 11.5	+ 15.0	+13.8	+ 35.3	31,616
Jones & Laughlin Steel	— 23.6	— 65.4	+17.1	+ 27.1	29,485
Kaiser Alum. & Chm.	+ 9.8	+ 9.2	+ 6.6	— 11.5	22,328
Lees (James) & Sons.	+ 10.6	— 0.7	+23.0	+ 49.7	5,695
Lib.-O.-Ford Glass	N.A.	+ 11.9	+41.4	+150.6	53,745
Mo. Portland Cem't.	— 6.8	— 29.6	+ 8.9	+ 8.2	5,011
Monsanto Ch.	+ 1.8	— 9.7	+13.5	+ 43.9	61,654
Nat'l Biscuit	+ 7.5	+ 6.8	+ 3.8	+ 11.1	24,533
Nat'l Steel	+ 7.1	— 13.6	+36.5	+ 53.2	54,897
Norwich Pharmacal.	+ 13.0	+ 22.5	+ 9.5	+ 18.5	5,148
Ow.-Corn. Fiberglas	+ 4.1	+ 17.4	+20.0	+ 46.6	16,171
Peabody Coal	+ 24.5	+ 9.6	+16.1	+ 15.7	11,339
Philco Corp.	+ 8.6	+ 9.7	+13.3	+149.2	7,162
Phillips Petroleum	N.A.	— 1.2	N.A.	+ 23.5	104,000
H. K. Porter Co.	+ 54.4	+ 3.4	+65.4	+ 93.4	6,732
Rayonier	+ 12.7	+100.5	+19.6	+270.7	13,350
Raytheon	+ 34.9	+ 92.2	+31.8	+ 43.4	13,481
Rockwell-Standard	+ 15.7	+ 13.3*	+38.7	+112.1*	19,392*
Ryder System	+ 21.0	+ 59.0	+34.6	+ 40.3	3,300
St. Regis Paper	+ 13.5	+ 0.3	+16.0	+ 30.0	28,600
Scott Paper	+ 4.7	+ 14.7	+ 4.3	+ 12.1	24,795
Stand. Oil (Calif.)	N.A.	+ 5.5	N.A.	— 1.5	254,000
Stand. Oil (N.J.)	+ 8.3	— 11.0	+ 5.9	+ 11.3	626,000
Un. Bag-Camp Pap.	+ 8.5	+ 1.2	+15.2	+ 21.2	18,965
U. S. Steel	— 20.1	— 66.8	+ 6.0	— 15.8	253,976
Westinghouse	— 1.7	+ 15.4	+ 0.8	+ 14.9	85,947
Wheeling Steel	— 36.0	— 93.0	— 4.2	— 21.0	7,033

*estimated

©BUSINESS WEEK

Corporate earnings for 1959 are something to crow about, but last quarter slowdown raises doubts about 1960.

Rejoicing, followed by a slight chill of concern.

Those are the two emotions evoked by a tabulation of last year's corporate profits (table). The jubilation stems from the fact that 1959 broke all records for total corporate profits, with a majority of companies registering new highs in sales and earnings. But the chilly feeling comes from the uneven fourth-quarter results—caused partly by the steel strike, partly by the narrowing of profit margins. When all is said and done, the worry may be justified.

Run your eyes down the table, and you'll find the chief argument why: the slowdown in earnings gains, as reflected in the spread between full-year net income and fourth-quarter earnings.

• **Bouncing Back**—Full year sales for most companies rebounded far above recession 1958's volume. Even the steel industry reported gains, despite the long mill shutdown. Jones & Laughlin Steel Corp., for example, had volume of \$765.7-million last year, compared to \$654-million in 1958. U. S. Steel Corp. had a 6% rise in sales, Crucible Steel Co.'s sales were up 17.6%, and Copperweld Steel Co.'s 47.9%. An exception was Wheeling Steel Corp., whose revenues declined for the third year in a row.

Sizable gains also were registered by chemical companies, paper companies, and a varied number of cyclical capital goods producers, which picked up handsomely from their poor showing in 1958. In fact, only a handful of companies couldn't tack on increased volume to their 1958 totals.

• **Percentages Up**—More important, most companies were able to produce even bigger percentage increases in earnings because of the rapid climb in profit margins.

For example, Allied Chemical Corp.'s 13.2% increase in sales produced a 46.2% increase in earnings; over the full year, earnings as a percent of sales rose to 7% from 5.4% in 1958. Caterpillar Tractor Co., with a 26.8% increase in sales, had a 44.4% increase in earnings; its profit ratio climbed from 5.5% to 6.3%. Chemstrand Corp. reported a 14.1% sales increase and a 31.2% increase in earnings. Westinghouse Electric Corp. had less than a 1% increase in sales, but saw its earnings rise 14.9%.

This pattern of higher profit margins

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BALTIMORE & OHIO RAILROAD

Those who know—use the B&O

showed up all across the board last year. That's because the dramatic post-recession gains in sales volume came on top of successful cost-surgery on supposedly inflexible costs during the recession. Also, a lot of new equipment helped reduce unit production costs. As a result, many companies were able to boast of higher profit ratios than they had had in some years.

In 1958, profit margins slipped for the fourth straight year. But last year, many companies were able to recoup a good share of this loss—although they couldn't match the lofty peaks of the late 1940s.

• **Less Economizing**—Toward the end of the year, however, profit margins started to narrow again for a number of corporations. This leads many businessmen to fear that the rise in margins achieved since early 1958 is only the improvement that historically follows a recession, the result of post-recession gains in volume combined with cost-cutting.

True, a good many companies say their climbing profit margins reflect new, basic gains in profitability—and they're encouraged by what they consider a generally noninflationary steel pact. But the majority confess they are not economizing the way they did during the slump, so that the rise in margins is fast losing its pace.

• **Costs Pinch**—Some companies, in fact, even showed a decline in earnings during 1959, despite increased volume, principally because they couldn't keep their costs in line. Braniff Airways, Inc., was one of these. It reported a 15.9% decline in profits, despite a 6.6% increase in revenues.

Many others suffered the same bite of unchecked costs. The rails, also afflicted by the steel walkout, were among those hardest hit. Others whose profits didn't increase at the same pace as volume were Ideal Cement Co. (the cement companies more or less froze prices during 1959), Air Reduction Co., Inc., and Liggett-Myers Tobacco Co.

• **Fourth-Quarter Blues**—But it was the fourth-quarter results that produced the real cloud on the horizon. For one thing, they indicated that more companies rely on steel's prosperity than most economists had forecast. For another, they suggested that fewer concerns are still enjoying rising sales and volume.

Indeed, sales for a number of companies showed only a slight increase over 1958's fourth quarter and an actual decline from 1959's third quarter. For others, including Ideal Cement and Westinghouse, volume ran behind fourth quarter 1958.

Still more reported a decline in profits from 1958's fourth quarter. This was evident in a wide variety of industries—among them sulphur, oil, and textiles.

Surprisingly, the list also included chemical companies. For example, Allied Chemical gained 6.9% in sales, yet dropped 4.4% in quarterly profits.

• **Impact on the Year**—All in all, the fourth quarter proved a disappointing one. It seems a pretty safe bet that the quarter topped the \$44.6-billion annual rate of profits reached in 1958's fourth quarter, but it's still too early to tell whether it matched 1959's third-quarter rate of \$46.4-billion.

The unexpected profits dip by some companies also has dragged down original full-year earnings estimates. Many economists now think that, when the final figures are in, 1959 pre-tax profits could be closer to \$47-billion than the higher figures they earlier envisioned. However, the annual total of corporate profits will easily beat the previous peak of \$44.9-billion reported in 1955.

• **1960 Worries**—The real concern is whether the fourth-quarter results will set a pattern for 1960. No one doubts that 1960 will see another record year for profits. But if profits margins are leveling off—as they already have in some companies—then this year's gains will be limited. There should be a big burst in earnings in the first half, chiefly from volume postponed by the strike. But second-half gains will be small, at best, according to the current thinking of most economists.

One reason is that profits margins traditionally have been bolstered by rising prices. But the outlook for higher prices throughout the major part of 1960—as demonstrated by the "noninflationary" steel pact—seems dim, and economists feel this price stability will pinch earnings.

Many companies, however, should be able to add to their gains of last year. Rosy forecasts have been made by a number of industries, including steel, autos and allied products, paper, and textiles. And if prices can be kept fairly stable without doing damage to earnings figures, then the year could end on a high note for many.

• **In the Soup**—Other corporations will undoubtedly find themselves in trouble before the year is out. One West Coast electronics manufacturer, for instance, admits that profits margins in his company are declining, mainly because profit margins are decreasing in military work which makes up about 60% of the company's business. Others in military work may find themselves in the same leaky boat.

In the oil industry, there's also a grim warning from economists at Continental Oil Co. They look for profit margins among oil companies to "shrink further during the first six months of 1960." During the last half, they add, the profits picture depends on what the oil industry does about the abundant supplies on hand. **END**

Gone to blazes \$1,500,000!



This unsprinklered building, used for the manufacture of cardboard boxes, was completely destroyed by fire.

Starting as a small flame in a pile of baled paper scrap, the fire was raging out of control when firemen arrived.

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Two Grinnell Automatic Sprinklers quickly extinguished flames without damage to the building when fire struck this papermaker, Brown Company, Berlin, N. H. Grinnell sprinklers like these can easily be installed for you with a minimum of inconvenience. The complete system is

normally fabricated in Grinnell shops, then shipped to location. Expert crews provide careful installation. Due to insurance savings, a Grinnell system often pays for itself in a very few years, as well. Get the complete facts, Grinnell Company, Providence 1, Rhode Island.



GRINNELL
AUTOMATIC SPRINKLER FIRE PROTECTION SINCE 1878



In Finance

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W. R. Grace Buys 51% of Cosden Stock, Spurns Proffered Additional Shares

W. R. Grace & Co. this week went through with its offer to purchase 1.5-million shares—51% of the shares outstanding—of Cosden Petroleum Corp. at \$25 a share. Grace officials said the two companies may eventually merge, but limited its purchase to its original offer despite the fact that additional Cosden shares were made available.

In 1956, the two companies were close to a merger, but it was called off at the last moment. Now Grace, which put up close to \$50-million to become a majority stockholder in Cosden, is apparently determined to take a close look at Cosden's oil and petrochemical operations before making any further move.

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Year's Demand for Long-Term Capital Expected to Exceed Supply of Funds

The demand for long-term funds in 1960 will be greater than the supply available for investment, according to a study by Girard L. Spencer of Salomon Bros. & Hutzler, who each year compiles a survey of capital requirements with the help of a small group of specialists. This relative scarcity of capital means, says the study, that the pressure on interest rates will be maintained "with a possibility of some further moderate increase" in the cost of borrowing during the year.

Spencer's study excludes Treasury operations, which could bring some relief if they are able to reduce the federal debt. The survey says that net demand for long-term capital will amount to about \$27.7-billion, with mortgage financing taking \$14.9-billion, state and local governments seeking \$3.9-billion, and corporations seeking \$8.9-billion. Total financing is expected to be much greater than the net figures, largely because of refunding operations.

On the supply side, the study sees \$26.6-billion in available funds, with savings and loan associations providing \$6.6-billion, life insurance companies \$4.9-billion, corporate pension funds \$3.7-billion, and mutual savings banks \$1.3-billion. This is greater than last year's investment supply, but the study shows demand increasing even more, leaving a gap of 4%.

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Murchison Family Agrees to Buy Mrs. Young's Alleghany Stock

The Murchison oil family of Dallas has agreed to pay some \$10-million—or about \$13.50 a share—for the big block of Alleghany Corp. stock owned by Mrs. Anita O. Young and the Robert R. Young estate. John Murchi-

son says that a proxy fight with Allan P. Kirby, Alleghany head and Young's former silent partner, is not contemplated. However, purchase of the Young stock makes the Murchison holdings second only to those of Kirby. If the Murchison family should form an alliance with A. M. Sonnabend, Boston real estate man, the resulting block—if all shares were converted into common stock—would be close to 1.7-million shares, compared to Kirby's 1.4-million.

The Young estate owns 100,000 shares of common, 112,870 shares of 6% preferred, and 9,400 shares of \$4 prior preferred. Mrs. Young owns an additional 47,500 shares of 6% preferred—each share convertible into 4.7 shares of common upon the payment of \$3.75 for each common share.

The deal with the Murchisons has been on the fire for several weeks. Mrs. Young has sought to divorce herself from the public—and often sensational—doings of Alleghany; she also wanted higher yielding investments. Toward the end of 1959, she offered to sell the Young stock to Kirby, but he declined. She is also said to have talked with Sonnabend before approaching the Murchisons.

Buying additional Alleghany stock also gives the Murchisons added influence in Investors Diversified Services, Inc., the big investment company. Under settlement of a stockholder suit in December, effective control of IDS reverts to Alleghany from the Murchisons. Their voting share in IDS is reduced to 15%, but their influence is enhanced by the acquisition of the new shares.

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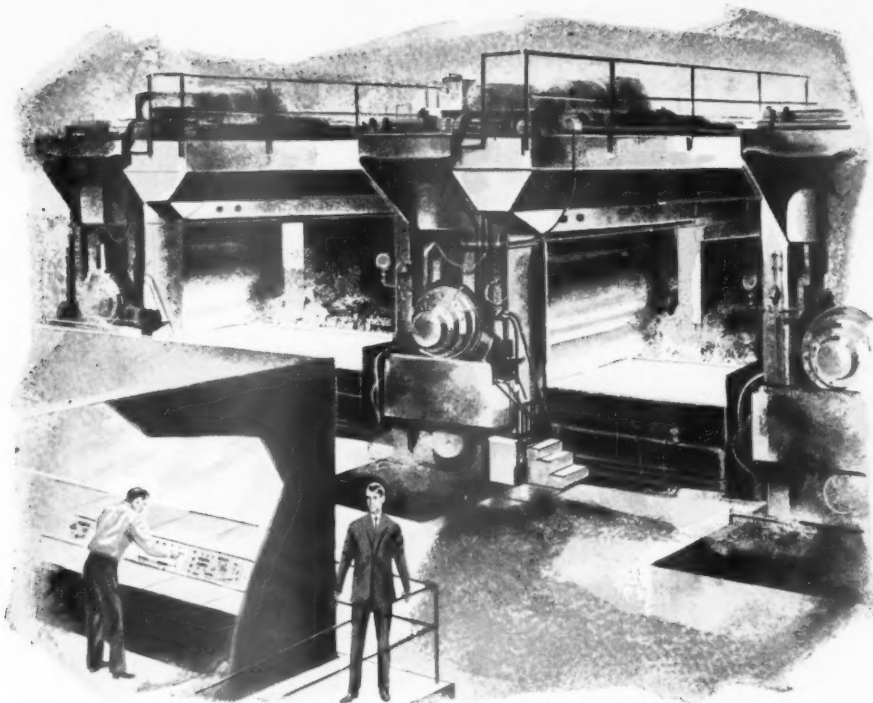
Western Union Finds Chicago Buyer For Its International Cable Business

Western Union Telegraph Co. said this week that it had finally found a buyer for its international cable business, which may open the way for a merger between American Cable & Radio Corp. and RCA Communications, Inc., the two leading U.S. companies in the international telegraph field. These two have long sought to merge—which would require Congressional approval (BW-Oct. 4 '58, p29)—as the only effective way of competing against British rivals.

As a condition of its acquisition of Postal Telegraph Co. in 1943, WU has been under government order to dispose of its cable business. But it has been unable to find a suitable buyer. Now, a Chicago group, Barnes Investing Corp., has agreed to pay \$13.5-million for WU's five transatlantic cables, plus taking WU off the hook on the five cables leased from Anglo-American Telegraph, Ltd. At present, WU pays \$735,000 in annual rent on its leased cables. Last year, WU grossed about \$15-million—or 5½% of total revenues—on its cable business.

The Chicago group headed by Norman Barnes, a businessman, thinks it can convince institutional investors to put up the cash for the purchase. In all, some \$29-million to \$32-million will be needed, since, under the terms of the contract, the Barnes group will have to buy out Anglo-American. Target date for the new concern is Oct. 1.

TODAY'S NEW AUTOMATION



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Today's number-one management challenge is the continuing need to increase industrial productivity. Among the major pressures: strong desires for a still higher U.S. standard of living; keen foreign competition in many fields; the need for greater retained earnings to finance growth. *It is significant that where General Electric automation systems are at work, this productivity battle is being won.*

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Very likely, today's automation can play a key role in keeping your company productive and competitive. To help you, General Electric offers *both* the process know-how developed through 81 years of serving industry *and* a full range of automation products. Whether your operations call for a complete automation system, or the first stage in a progressive-automation program, look to G.E. to do the job best. And G-E automation equipment is backed by a nationwide network of engineering, installation, and maintenance operations.

We urge that you arrange now to discuss the potential role of today's automation in your company with your G-E Apparatus Sales Engineer.

And, write for our 1960 management brochure on automation to General Electric Company, Section 696-1, Schenectady 5, New York.

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Profit on Commuters—a Little

Chicago & North Western claims a \$30,000 net after shakeup in suburban service.

Ben W. Heineman, chairman of the Chicago & North Western Ry., and Clyde J. Fitzpatrick, its president, have lately been celebrating one of the rarest events in the recent history of U. S. railroading. Last year, their suburban trains carried some 40,000 commuters each working day between Chicago and its suburbs—and made a profit at it.

It was a slim profit, certainly. Though the road's full accounts for 1959 are not yet complete, it probably came out about \$30,000 to the good on its suburban operations. Meager as this is, it breaks the pattern of constantly climbing losses that has gripped the North Western's and other railroads' commuter operations almost since the end of World War II.

• **Hint of Change**—It comes at a time when the 1-million-strong, unhappy band of brothers, the nation's railroad commuters, faces a decisive year. For a long time now, most of them have sensed only disaster ahead: fares getting higher and higher, service shrinking, and the trains getting more and more decrepit and unreliable.

Lately a change has developed. In most cases, it amounts to little more than a shift in atmosphere, a sense that some commuter railroads are about to get the kind of public aid without which, they claim, they cannot survive. But in a few cases there has been action.

Last week, Philadelphia worked out a scheme to maintain at least some of its commuter services (BW—Jan. 30 '60, p30). In New York, Gov. Nelson Rockefeller's railroad relief scheme will forgive the roads some \$12-million in taxes next fiscal year.

None of this means the commuter crisis is over. Far from it. The New Haven RR, which carries some 37,000 gray-flannelled riders between Connecticut and New York City each working day, still threatens a 70% fare increase—which it admits would mean the death of its commuter business—unless it gets a subsidy of up to \$6-million by mid-year. There is still no sure sign that the subsidy will be forthcoming.

• **Unorthodox Railroader**—In the midst of all this, Heineman is a maverick. Not only does he record a profit from the commuter business, but last month he ordered \$21-million worth of new commuter coaches and locomotives to be delivered in the next 18 months.

By mid-1961 the North Western's commuters will never have had it so good. Then, 200 new high-capacity commuter coaches (picture, left) will be doing the work that 415 could barely handle two years ago. This makes for economies through cuts in the work force and for more reliable service through less rush-hour crowding of track and terminal facilities.

For moves like this Heineman has been called the commuters' friend—but not by the commuters themselves. The true commuter regards all railroadmen as enemies. Many of the steps that have led to the change at the North Western



NORTH WESTERN'S new double-deck trains pack in more commuters, bring economies in labor, ease in operations.



TO BEAT commuter loss, Chmn. Heineman (left) and Pres. Fitzpatrick explain: "We closed 23 stations inside the city . . .



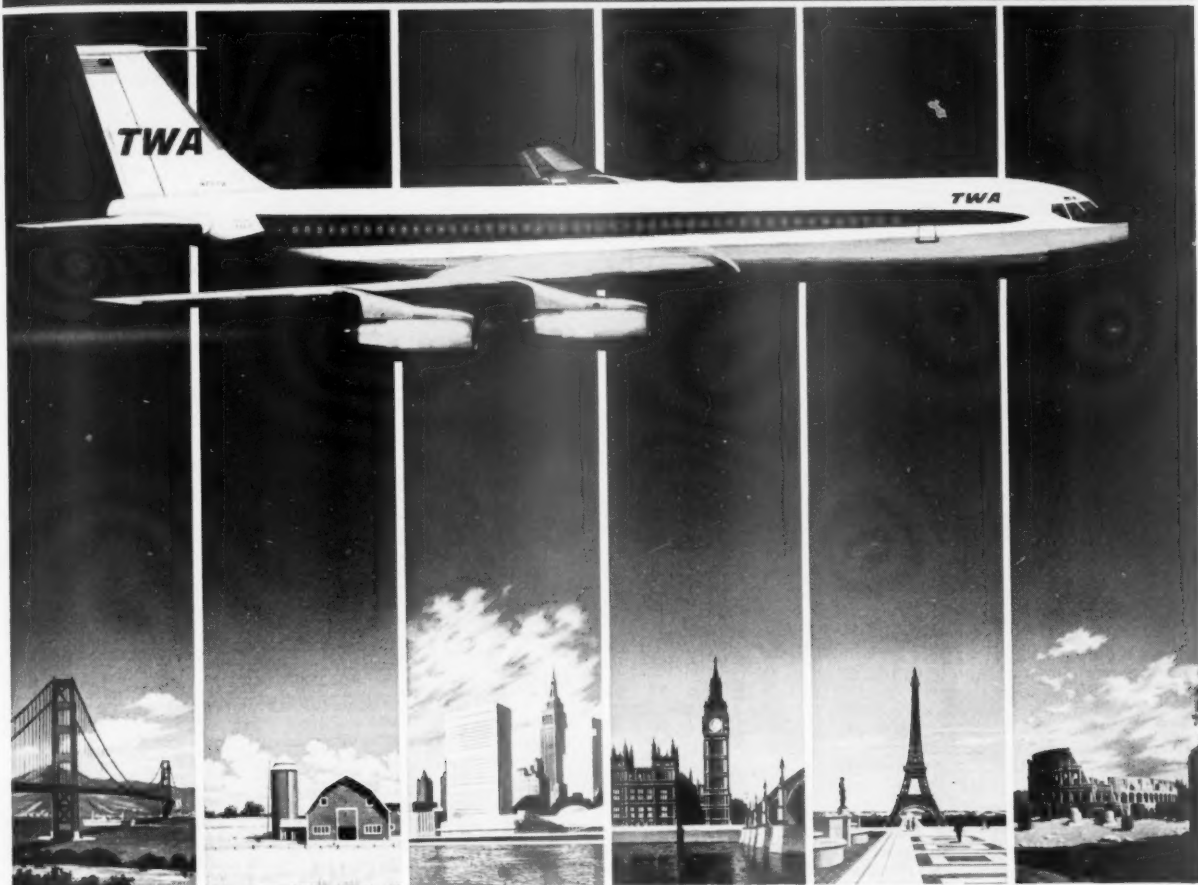
. . . changed the ticket system to make accounting easier and to cut out opportunities for cheating . . .



. . . and raised fares 24%. We didn't get the growth we expected, but still wound up some \$30,000 in the black."

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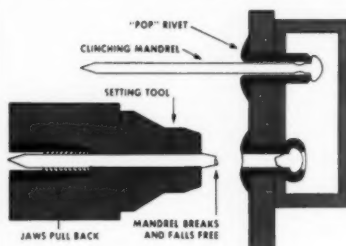
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have been achieved against the bitter opposition of many of its riders.

• **A Real Profit?**—Now that Heineman reports a profit from the commuter business, other railroad men who must transport commuters, and who seek some form of subsidy or tax relief for doing so, have swung in to criticize his claim.

In private, they say he has contrived his profit by changing the industry's accepted cost allocations, charging off more than usual to freight or to through passenger service. This, says Heineman, is false; the North Western's costs are allocated in just the same way they have been for years past.

Others grant the validity of his profit but say the North Western won permission from Illinois' railroad regulatory group to make radical changes in its service because the road "has the group in its pocket." This, says Heineman, is equally false.

I. Three Hectic Years

The big change at the North Western has come in less than three years.

Heineman—by background a corporation lawyer, not a railroad man—led a group that won effective control of the North Western early in 1956. On April Fool's Day that year he moved in as chairman, and he brought Fitzpatrick with him. Fitzpatrick started in the railroad industry at the age of 17 as a telegrapher with the Illinois Central and made vice-president there two years before he moved to the North Western.

• **Financial Mess**—Heineman and Fitzpatrick found the North Western in a mess. In the first quarter of that year, the railroad met its payrolls only by selling old rails and other scrap.

Hardly any division was worse off than the suburban service. The bulk of its trains were hauled by steam locomotives, and most of the coaches were 40 years old. The last 10 miles of each of the three main suburban lines reaching into the center of Chicago passed through at least half a dozen stations little more than a mile apart, all of them within city limits. To keep the service going took all the division's own revenues (\$8.3-million in 1955) plus \$2-million a year more drained from freight income.

This \$2-million deficit is of only medium size compared with the money that some Eastern roads drop on their commuter business. The New Haven, for example, gets \$16.5-million a year in revenues from its New York commuter services but loses about \$8-million on the operation.

• **Three-Stage Plan**—To beat the North Western's loss, Heineman and Fitzpatrick developed a three-part plan.

Step One called for closing 23 suburban stations within Chicago. They

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Job for Autocars—A truck is a production tool, and tools must match the job—like the Autocar ten-wheelers shown at work here.

Peak production calls for Autocar ... "nothing less"

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engineers each truck to fit the job... your assurance of top performance.

Autocar's great load capacity, power and stamina are the result of the way Autocars are built—with unequaled precision and quality.

Where the jobs are tough and

schedules tight, Autocars are an absolute necessity. If you settle for less, you'll get less—so why try to get by without the "World's Finest"?

Autocar service is prompt and comprehensive at all White-Autocar outlets... in every major city.

Autocar
"World's Finest"

Division of
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Exton, Pa.

would lose \$300,000 a year in revenues from passengers who used those stations. But the road would still be \$500,000 ahead.

Step Two was a change in the type of ticket. They decided to wipe out the old punch-type tickets, which are valid for a fixed number of rides each month and on which each ride is checked off by a conductor's punch. They sought to substitute tickets that are valid for an unlimited number of rides each month.

This switch promised several sources of savings that together would reduce the loss by \$625,000. The biggest part of this—\$475,000 worth, they estimated—would come from what's euphemistically called "improved collection procedures." That, in two words, means "less cheating."

The North Western's riders had many tricks: Shifting seats to avoid conductors, buying a ticket from a stop several miles closer to Chicago than the one they actually used.

Step Three was a 24% fare increase. They estimated that this, along with a steady 6% growth in the number of commuters, would produce some \$2.4-million. The savings from the first two steps would be about \$1,120,000. And the total would be enough to cover the deficit and payments on new equipment.

Near the end of December, 1957, they put the proposals to the Illinois Commerce Commission. It took a year to win approval.

II. Year's Experience

Now that the first full year is complete, it's easy to see the plan has not produced all that was expected of it. Had it worked fully, the net from last year's commuter business would have been more than \$1-million instead of \$30,000.

Where gains were easily predictable, the plan worked well: The station closings and ticket system changes brought in about what was expected. But where the plan relied on growth, much less easy to predict, it fell down.

• **Growth Stunted**—In 1957, the North Western gained just about the right number of commuters—almost 6% more than it had in 1956. Then came the recession. The passenger load stayed stable from 1957 to 1958. Housing starts dropped in the area north and west of Chicago. Last year, the effects of the recession still held back growth; and, when the fare increases went into effect, the passenger load dropped. For the whole of 1959, it stands some 12% less than in 1958.

So, at the moment, the North Western isn't earning enough from its suburban operation to cover future payments on its \$21-million loan for new equipment. For this, it needs about \$1-million more a year. Thus, says Hein-

man, it will have to raise fares again. It will probably seek something less than a 10% boost.

• **Slight Pickup**—Lately, growth has begun to pick up again in the suburbs that the North Western serves. But the North Western is still engaged in a race against time. Its next fare boost will probably come just about simultaneously with completion of most of the final links in Chicago's new network of expressways, and competition of automobile commuting will intensify.

Heineman, though, is convinced he can make the suburban service pay for itself. And Metropolitan Life Insurance Co., which is lending the money for new equipment, is betting \$21-million that he can do it. But when it comes to solving the commuter chaos elsewhere, Heineman carefully refrains from recommending his three-part scheme to other railroads.

III. Problems Differ

The trouble with the commuter mess is not only its extent but also the difference in the problem from city to city and from railroad to railroad.

Chicago's railroads have long done better financially on commuter hauling than those in the East.

Midwestern roads generally pay lower property taxes than those in the East. And their passenger service doesn't make up anywhere near the share of revenues as that in the East. The North Western gets only 8% of its revenues from passengers; the New Haven, about 30%. Providing the service drains the roads' remaining income in about the same proportions.

• **The New Haven**—However, recent management changes at the New Haven suggest that the road has been troubled by more than the tax burden, the years of unsympathetic treatment from regulatory groups, and the structure of the road's income.

Charles Shannon, a former North Western man who was for two years the New Haven's operating vice-president, was replaced by Frederick J. Orner, who has been 24 years with the New Haven. Several operating men who had been downgraded in the last year are back in their former jobs again.

Pres. George Alpert admits morale has been bad; now there are hints that what amounted to an unofficial slowdown among operating men is over, that maintenance and train operations are getting closer to proper schedules.

None of this changes the New Haven's plea for a subsidy. But it does suggest that, even though subsidies seem necessary to keep some commuter railroads going, there's still a place for the kind of imaginative management that the North Western has been getting.

Many Legal T

Damages collected can depend on where crash occurs, where ticket was bought—even on what stopovers it permitted.

There can be little but sorrow in the aftermath of a fatal airplane crash. Yet, from the legal standpoint of relatives who have lost not only a father or a husband but an income as well, it can be a matter of some importance on which side of a state line the doomed plane crashes.

On Apr. 6, 1958, for example, a Capital Airlines Viscount headed west for Chicago from Newark Airport, with stops at Detroit, Flint, and the tricities of Saginaw, Bay City, and Midland, Mich. But—like the Miami-bound National Airlines DC-6B that came down in North Carolina last Jan. 6 (above)—it never reached its destination. Instead, it crashed at Freeland, Mich., killing the crew of three and 44 passengers.

For bereaved relatives of its passengers, there was at least the dubious luck that the crash occurred in Michigan—which has no statutes restricting the amounts that can be recovered from airline underwriters.

• **Varying Rights**—About 45% of the world's airline passengers buy flight insurance; thus, some survivors and estates are protected automatically. An unknown number of travelers also carry ordinary life insurance. But since an airline is liable for "wrongful death," claims, settlements, and suits are common.

Unlike Michigan, 13 states do have restrictions on claims after a fatal crash, with limits varying from \$10,000 to \$30,000. And, since the law of the state in which the crash occurs nearly always prevails, "it becomes legally important where people get killed in an air crash," says Lee S. Kreindler, a New York attorney specializing in airplane damage suits.

But that's only the beginning. Legal rights vary not only from state to state, but from country to country, flight to flight, even from seat to seat on the same plane.

One passenger killed at Freeland, Mich., was a 38-year-old executive who left a wife and five children. In a suit under the unrestricted Michigan law, the family received a settlement of \$234,000. The airline underwriter and family agreed that there was a high "pecuniary" loss. Yet if the man had been a passenger on the Capital Airlines Viscount that crashed in Virginia two weeks ago (BW—Jan. 23 '60, p36), the family could have collected no more

Twists Govern Air Crash Claims

than \$30,000 because of the legal ceiling there.

- **Travelers Abroad**—Looking further afield, an international agreement—the Warsaw Convention of 1924—places an even lower ceiling (\$8,300) on claims in international travel resulting not only from death but from personal injury. (In the U.S., personal injury claims are tried under common law, which imposes no ceiling.) In Italy, local statute clamps a \$250 ceiling on death claims.

There's a built-in advantage, though, in suits against an international line. In the U.S., negligence must be proved in nearly every case, and attorneys need specific evidence of this (the exception is in invoking a legal doctrine under which a jury may infer that since there was an accident, the defendant must have been negligent. Airlines, though, have been able to turn back 22 out of 24 suits recently based on the doctrine).

But under the Warsaw treaty, international law carries a presumption of liability on the part of the carrier, which usually must try to prove it was not negligent and more often than not pays claims up to the \$8,300 limit.

- **Legal Quirks**—This international protection gives passengers a variety of rights, even though they may be riding in adjoining seats. If the ticket of the executive killed at Freeland, Mich., had included stopovers in Canada or Mexico—both signers, with the U.S., of the Warsaw Convention—his family could have claimed only the \$8,300 maximum.

Or take the Northeast Airlines plane that crashed off New York's Riker's Island a few years ago. Passengers with through tickets to Canada came under the Warsaw \$8,300 limit. Most passengers, though, were bound for domestic cities, and claims for death and injury were under no such restraint; New York sets no ceiling on either.

Even the purchase of a round-trip or one-way ticket can affect legal status. For example, the U.S. is a Warsaw convention signer. Cuba is not. If a passenger buys a one-way ticket from New York to Havana, the Convention does not apply. But if he buys a round trip ticket the Convention applies because the journey started and ended in the country of a signatory.

Claims lawyers and plaintiffs chafe under the restrictions, although there are trends domestically and internationally that will loosen them.

Internationally, a Hague Protocol proposed in 1955 would double the claims limit to \$16,000; so far 12 countries, not including the U.S., have ratified it. Despite a rise in the dollar limit, claims lawyers such as Kreindler, oppose U.S. ratification, fearing that it



AFTERMATH of plane crash—this is DC-6B that crashed near Bolivia, N. C., on Jan. 6, killing 34—can be suits for injury or death, but not all passengers have same rights.

“will cement into our law the principle of limitation.”

Domestically, the number of states with claims ceilings has been diminishing; and other states are raising the ceilings.

- **Breakthroughs**—There are a few end runs lawyers can make around domestic statutes and the Warsaw Convention.

One way they try to get around state limitations on death claims is to sue the government for the negligence of its employees in another state. For example, an airplane crashes in Massachusetts, which has a \$15,000 ceiling on claims resulting from death. If it could be proved that a control tower operator employed by the Federal Aviation Administration had given false advice to the plane, which caused it to crash, the liability of the government would be unlimited.

Kreindler, himself, recently established “another possibility.” After the crash of a Northeast Airlines plane on Nantucket Island, Aug. 15, 1958, Kreindler sued the airline “on contract rather than on tort,” thus applying the law of the place where the contract was made, i.e. New York, rather than the place where the accident happened, i.e. Massachusetts. The case is currently on appeal from a decision in New York's Supreme Court, which upheld the principle Kreindler advanced.

Claims lawyers have sometimes been able to break through the \$8,300 international “barrier,” too, though this is rare. One important reason: Although there is a presumption of liability tied

to the Warsaw Convention, claims for more than \$8,300 must try to prove “willful misconduct.” This is nearly impossible, because airline standards of operation are so high. But some lawyers have succeeded.

On a LAI plane from Rome that struck short of the runway at Idlewild on Dec. 1, 1954, four passengers were injured, 16 were killed. Some claims were settled within the \$8,300 maximum of the Warsaw Convention. But a few of the injured, and several relatives of dead passengers, sued through Kreindler with the aim of proving willful misconduct. Kreindler argued that the pilot, during his approach, had been warned seven times to “pull up” and that he was below the glide path. “The case was settled,” says Kreindler, for an amount “substantially above the \$8,300 ceiling.”

- **Airline View**—For the airlines and their underwriters (major underwriting groups: Associated Aviation Underwriters and U.S. Aviation Underwriters) the problem of dealing with crash claims is a ticklish one—especially so in an industry relying heavily on good public relations and good will. Thus, the industry and its underwriters will “honor claims regarded as reasonable and just,” and will make settlements out of court. But, airlines buy insurance from their underwriters to cover their “legal liability,” and will fight hard against claims they regard as excessive—claims, for example, based on accusations of willful misconduct, which can, if proven, harm a line's reputation immeasurably.

The Story That

It wasn't the biggest story that Al Knoerr ever wrote, but it was the biggest that Charlie Steen ever read. This is the story of two men and the Mi Vida mine.

First, Alvin W. Knoerr, a graduate mining engineer with summer jobs as chute blaster, high hang-up man, timberman and mucker—now editor of McGraw-Hill's *Engineering & Mining Journal*...

After the war, Al Knoerr set a high goal for himself—the story of uranium. Rim-flying, jeep-riding, and climbing by hand over the West's prime uranium territory, he gathered material for a series of articles which began in '49. His first, the one that sparked Steen, was "Can Uranium Mining Pay?"

Charlie Steen was a young geologist who worked for an oil company, first in Peru, then in the Southwest. He

read Knoerr's article, decided to strike out on his own. Even after his money ran out, he borrowed a grubstake and continued to prospect.

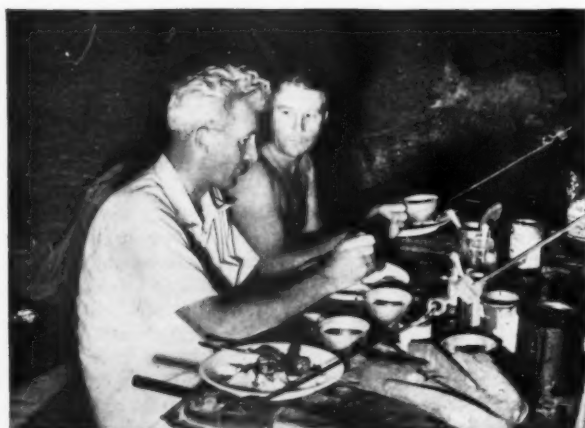
Steen finally came up with a uranium-rich drill core, and found two old friends to finance one big gamble. He sunk the Mi Vida shaft—and became a millionaire.

What does it all prove? The first thing is that McGraw-Hill editors get *all* the facts. The second is that they know their fields personally, know the kind of information readers can use in their work. The third is that the readers *know* they know.

The very fact that they *pay* for McGraw-Hill magazines shows that they want them. Charlie Steen does—and so do more than a million other key men in business and industry.



McGraw-Hill Publishing Company, Inc., 330 West 42nd Street, New York 36, N. Y.



Franks and beans were the menu for Al Knoerr and Phil Simmons, of the Atomic Energy Commission, when they ate off a jeep tailgate on the Colorado Plateau. One result of Knoerr's personal legwork was his final article, "U₃O₈—Formula For Profits."



Al Knoerr received the Jesse H. Neal Award for "U₃O₈," and the Industrial Marketing Award for the "Best Single Article in an Industrial Publication." Significantly, the AEC ordered thousands of reprints, sent them to everyone who asked about uranium.

Led to Mi Vida



"I owe your magazine a debt of gratitude," Charlie Steen says. He is showing Al Knoerr (right) the ragged trousers he was wearing the day of his history-making discovery at Mi Vida.

**Now "Handle With
Care" means handle
with Chevy!**

The load can be marked *Danger* or *Fragile* or *Handle With Care*—but the way Chevrolet's truck torsion springs soak up vibration and road shock, that load will be shown more respect than it ever saw before.

More than likely it'll get where it's going in less time, too, definitely with less strain on the driver.

The point is: Chevrolet's radically new independent front suspension doesn't offer just one advantage and stop there. The same ride characteristics that protect fragile cargoes will let you haul bruising, off-the-road loads of fill dirt with far less worry about downtime.

The same cushioning action that makes life easier for the driver lets you move at faster safe

1960 CHEVROLET



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speeds over any ground to get in more trips a day. The same shock-proofing effect that virtually eliminates shimmy and wheel fight—that makes handling so much easier—also absorbs most of the stress and strain ordinarily transmitted to the body and sheet metal. The whole truck holds up better, stays new longer, and its working life is increased by extra thousands of miles.

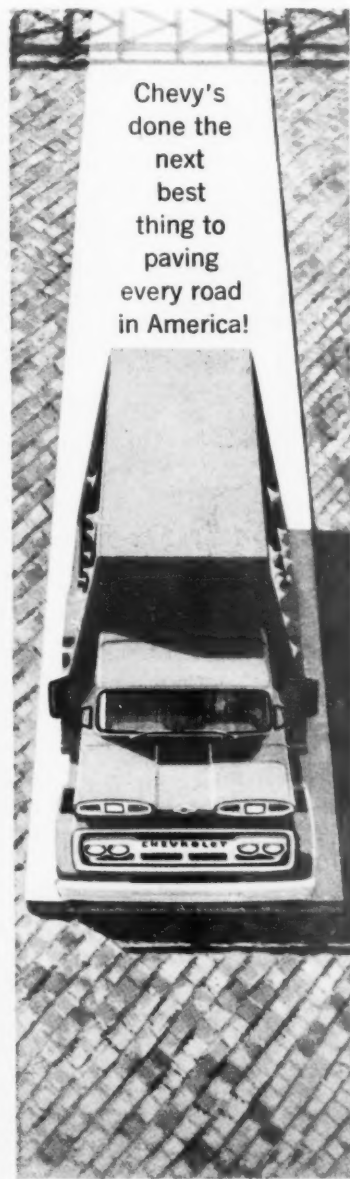
Take one of your present trucks—whatever make it is—over a particularly rough piece of road. Then, while the bounces and jounces are fresh in your mind, borrow a '60 Chevy from your dealer and cruise it over the same route. We'll rest our whole case on that one ride. . . . Chevrolet Division of General Motors, Detroit 2, Michigan.

A whole new approach to truck durability and ride!

Torsion springs, with fully independent front suspension, revolutionize the ride. **Wide-based coil rear springs** in many light-duty models for better-than-ever stability. **Variable-rate rear springs**, sure to last longer, in most medium- and all heavy-duty models. **Frames that are tougher**, more resistant to twist—a big plus in Chevy's new Sturdi-Bilt design. **Cabs that are wider, safer**, 67% more rigid. **Front wheels and tires precision balanced** in final assembly. **Lively V8's with longer life. Sixes sworn to save you money.** All done up in the year's handsomest style!

Anything less is an old-fashioned truck!

ET TRUCKS WITH TOTAL NEWNESS



Chevy's
done the
next
best
thing to
paving
every road
in America!



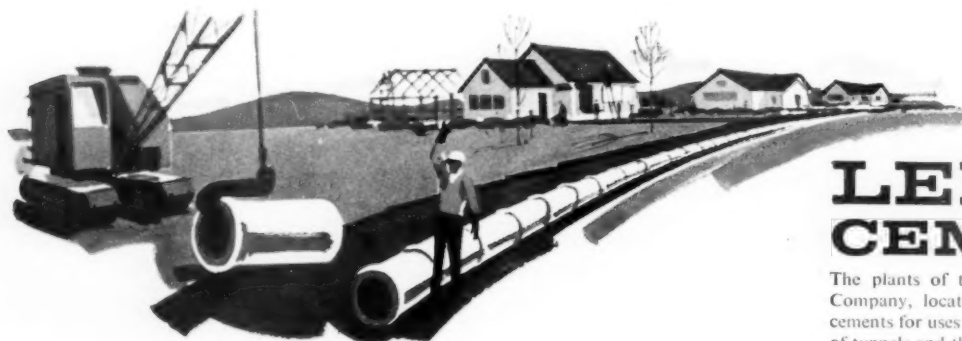
How concrete helps you run your home . . .

Concrete dams tame rivers to provide electricity. Reservoirs made of concrete store water. Time-defying pipes of concrete deliver water to your community where it ends in your bathroom, your kitchen, your laundry.

The ways in which concrete safeguards your life and property, and contributes to your happiness and welfare, are easily overlooked. In your home and on the roads you travel. In your neighborhood schools and churches. In

bridges, stores, factories. At your airport. Everywhere, your life and livelihood are influenced by it . . . often depend on it.

Lehigh Portland Cement Company is a major supplier of cement, the basic ingredient of concrete. Through a continual program of research and growth it is broadening its role in the improvement of the American way of living. Lehigh Portland Cement Company, Allentown, Pa.



LEHIGH CEMENTS

The plants of the Lehigh Portland Cement Company, located in eleven states, produce cements for uses as diverse as the construction of tunnels and the steps of your porch.

In Business Abroad

• • •

Continuation of Liberal Trade Policies

Urged Regardless of Economic Changes

The U.S. should stick with a liberal trade policy regardless of changing world economic patterns. This was the consensus of a two-day conference of economists, businessmen, and government officials held in Washington last week by the Committee for a National Trade Policy, a group organized 10 years ago to champion freer trade.

Most of the conference was devoted to panel sessions that were expected to "reexamine" U.S. foreign economic policy in the light of such current problems as the unfavorable balance of payments; regional trade blocs such as Europe's Common Market and Free Trade Assn.; and stabilization of commodity prices in underdeveloped areas.

The majority in each of the five panels favored continued U.S. support for the trade policy pursued since World War II. Yet throughout the sessions ran an undercurrent of expert opinion that Washington will have to come up with some new ideas if the policy is to be kept intact.

One of the most ambitious and controversial proposals to come out of the conference was reported by Columbia University's Roy Blough, chairman of the balance-of-payments panel. This is the idea that the U.S. should consider some means of bolstering the existing world monetary system, perhaps by enlarging the role of the International Monetary Fund. At present, the system depends heavily on national currencies—the dollar and the pound—as international reserves (BW—Jan. 30/60, p116).

• • •

IDA's Soft Loan Program Expected To Go Into Operation Next Fall

The International Development Assn. is fast becoming a reality. It will be a \$1-billion arm of the World Bank, making soft loans for projects in underdeveloped countries. IDA, the World Bank, and the International Monetary Fund will include the same members, and IDA will be managed by the bank.

The World Bank this week submitted IDA's charter to prospective member governments for approval. Enough governments are expected to O.K. it so that IDA can begin operations next fall. Congress also is expected to authorize the roughly \$320-million U.S. contribution without serious hesitation.

The charter leaves IDA a free hand to set policies on loan terms and the extent to which soft currencies will be loaned or accepted in repayment. Lending operations probably will get under way slowly as the new fund's managers feel their way into the relatively unexplored field of soft loans.

Demand for development capital is rising fast. And

MORE NEWS ABOUT BUSINESS ABROAD ON:

- P. 72—It took some fancy financing and organizing to build the Campo Duran pipeline in Argentina.

• • •

U.S. Innkeeping Chains Turn Talents To Management of Middle East Hotels

Two U.S. hotel chains, one an old hand and the other a relative newcomer to foreign operations, are undertaking the management of new hotels in the Middle East.

Hilton Hotels International will manage two, and possibly three, hotels for Jordan Hotels & Tourism Co., a joint private and government enterprise set up to promote travel to Biblical sites.

Hilton has just started operating the Dead Sea Hotel near Jericho. At 1,300 feet below sea level, it claims to be the lowest hotel in the world. Another Jordanian hotel is under construction in Amman, the capital, on the highest point of the city's seven hills.

Hilton is also negotiating with Jordan Hotels for construction of a hotel in the Jordan-held section of Jerusalem. It would be similar to Hilton hotels in Cairo and Istanbul.

In Israel, Sheraton Corp. will complete its first venture outside North America and Hawaii next October. It will manage the Sheraton-Tel Aviv for the Hotel Corp. of Israel, owned by a group of U.S. businessmen, headed by Sidney Stackler, of Chicago. Sheraton says growing tourism in Israel is the reason for building the hotel. Of 90,000 visitors last year, half were from the U.S.

• • •

Russians Will Enter the "Moskvitch" In Contest for U.S. Small Car Market

The Soviet Union's trade offensive appears to be picking up speed. So far limited to such activities as buying textile machinery and trying to sell watches, the Russians now will attempt to sell cars in the U.S.

Tass, Soviet government news agency, this week disclosed that a Russian trade agency has signed a two-year agreement with Andrea Motors, Inc., an auto dealer in Syracuse, N. Y. Andrea, headed by Robert Castle, will take 5,000 "Moskvitch" cars each year.

The Moskvitch is a small four-seater—that sells in Russia for 25,000 rubles (about \$6,250 at the official rate of exchange) and about \$1,400 abroad. The car reportedly performs well on rough roads and in cold weather.

The Fancy Financial Footwork T

Since the Phoenicians first pushed their ships into the Mediterranean, enterprising businessmen have been contriving intricate international stratagems to make money. But competitive, political, and legal risks being what they are, these men have usually been reluctant to expose their operations to public scrutiny.

One such project will reach a high point in a few weeks, when an Argentine engineer opens a pipeline valve to give Buenos Aires its first stream of natural gas from the Campo Duran oilfields, 1,100 miles distant (map, lower right).

Behind that turn of the hand are organizational and financial trails that lead over four continents. Rarely has a pipeline project sprouted so complex an organization (chart) or necessitated such elaborate financial maneuvers.

• **Prime Mover**—The entrepreneur who put this together is Virgil Stark (picture), president of North American Utility & Construction Corp., of New York. He is largely responsible for the organization and financing moves behind the construction of a \$200-million pipeline for Yacimientos Petroliferos Fiscales (YPF), the oil agency that is

operated by the Argentine government.

Stark leads a combine of his company's international affiliate and Fish Engineering Corp., of Houston, headed by Chmn. Ray C. Fish. This partnership carried through the pipeline financing and construction without putting up more than a few dollars of its own money or assuming any of the financial risk. One U.S. banker privy to the affair calls it "the most ingenious, intelligent, and audacious plan I have seen in 25 years."

I. Filling a Gap

The Campo Duran project itself is older than Stark's participation in it. The pipeline, longest in Latin America, is a vital part of Argentina's plans for economic stabilization.

The economic turmoil that was a partial cause of dictator Juan Peron's fall in 1955 churned to full force in the years that followed. The nation was racked with inflation, government deficits, fast-dwindling foreign reserves. From 1955 to 1958 it accumulated a foreign trade deficit of over \$1-billion. A prime cause was the import of oil, which in 1957 accounted for \$317-million of a \$355-million trade deficit. To offset this, the new government set out to develop the country's own extensive oil resources.

In 1957, the government authorized YPF to spend \$250-million in foreign currencies and 4-billion pesos for pipelines, refineries, and other oil processing facilities. In late 1958 Pres. Arturo Frondizi, overcoming strong ultranationalist opposition, opened large areas of southern Argentina to foreign oil companies for exploration. Argentina's aim is to become self-sufficient in oil in 1961, an exporter of oil by 1964.

• **Double Line**—The Campo Duran pipeline alone, when fully operative at the end of this year, is expected to save the country annually \$130-million in foreign exchange by cutting oil imports in half. Actually, it is two pipelines—one for natural gas, the other for liquid products. The gas line curves down from the nation's northern edge to Buenos Aires, where 25% of the country's population is concentrated. The product line runs parallel, but terminates at a refinery in San Lorenzo, on the Parana River west of the capital.

• **False Start**—YPF had hired an Italian company, Techint, to begin work on the pipeline in 1956. Techint got the product line built from the oil field as far as Tucuman, but did no work on the gas line.

While this work was still in progress, however, YPF realized it couldn't fi-

nance the project to completion. It didn't have the foreign currency to pay for equipment, materials, and machinery that were available only outside of Argentina. Nor could YPF, an arm of the deficit-ridden Argentine government, get foreign suppliers or financial institutions to extend the necessary credits. It had only pesos for domestic expenditures. It needed an outside representative who would be able to arrange for foreign credits privately.

II. Getting Set Up

In April, 1957, YPF turned to foreign constructors to find one willing to undertake both the construction and foreign financing of the project. Since contractors are hardly in a position to extend \$200-million in credit, this meant the contractor himself would have to hunt up several financial institutions willing to provide the necessary credits to enable him to pay suppliers for machinery, materials, and engineering services.

Obviously, this is not the way contracts are usually let. Ordinarily, the customer puts up the funds from his own resources or borrowings and pays the contractor as he builds or uses short-term credit. Yet a number of contractors were willing to bid for the Campo Duran job under the conditions imposed, because it was the only way they could get the contract.

• **Competition**—There were several strong competitors for the job. One was a consortium of 22 British and U.S. companies, including Williams Bros. Co., of Tulsa, a leading pipeline builder. Another was Stark's combine. His company, North American, had done previous pipeline work in Argentina, though not on nearly so large a scale. His partner, Fish Engineering, had built a \$160-million pipeline from New Mexico to Oregon and Washington in 1955 to bring gas to the Pacific Northeast (BW—May 28 '55, p68).

The combine presented its bid through an outfit called Tipsa (Technica Industrial y Comercial Petrolera, S. R. L.). This joint venture of North American and Fish Engineering in Argentina employs a number of ex-YPF officials and engineers with close government connections.

• **Contract**—In July, 1957, YPF awarded the contract to Stark's combine. Stark says his group's bid was about 10% below the competition's and promised completion in 20 months instead of the consortium's three years.

Announcement of the contract award brought a roar of complaints from unsuccessful bidders. Several registered

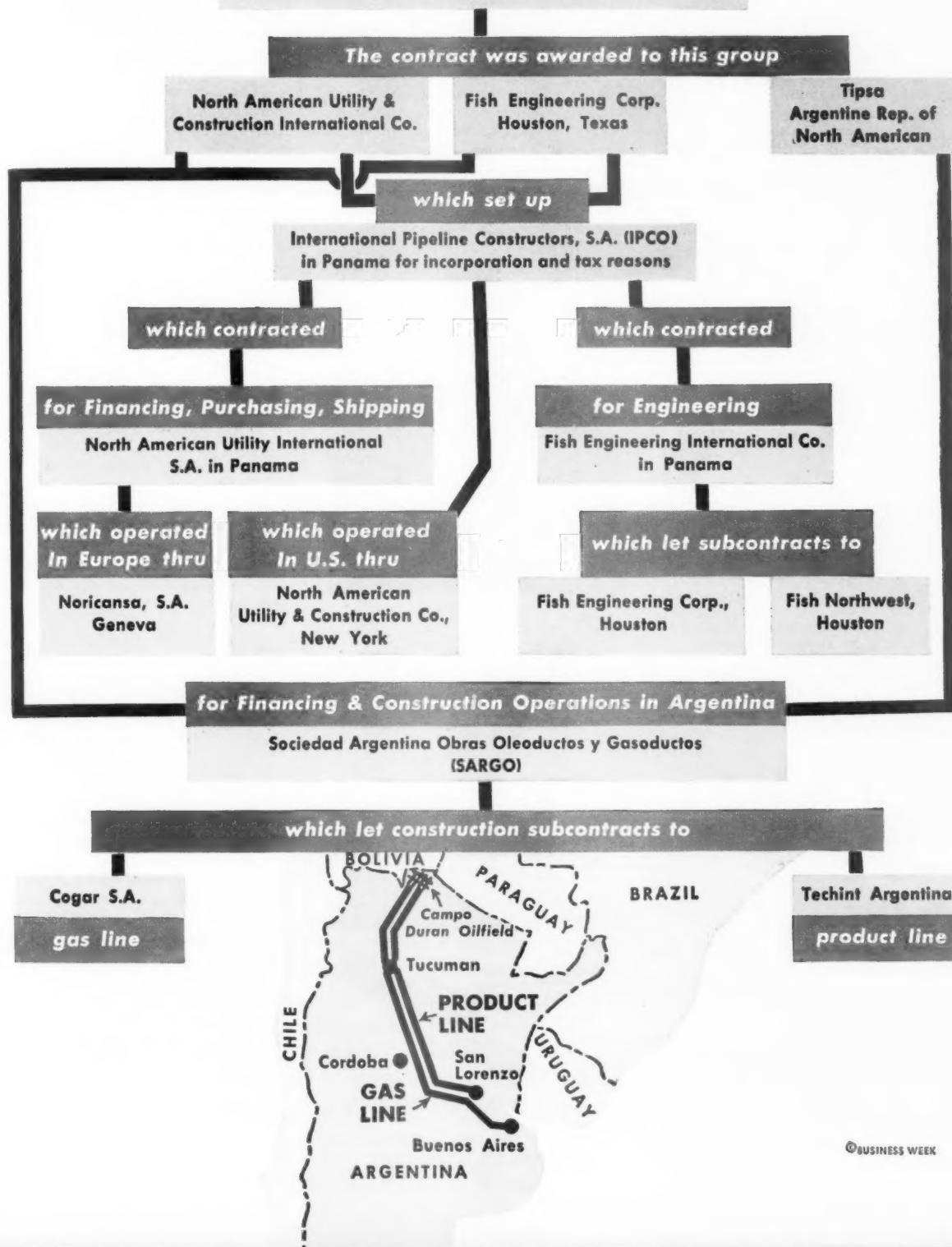


TOP MAN in Argentine enterprise, Virgil Stark, made rounds of European and U.S. banks to get cash and credit needed for job.

ork That Built an Argentine Pipeline

A U.S. combine has just completed a \$200-million pipeline for the Argentine government.

Here's the complex it set up to cope with international financial and supply problems.

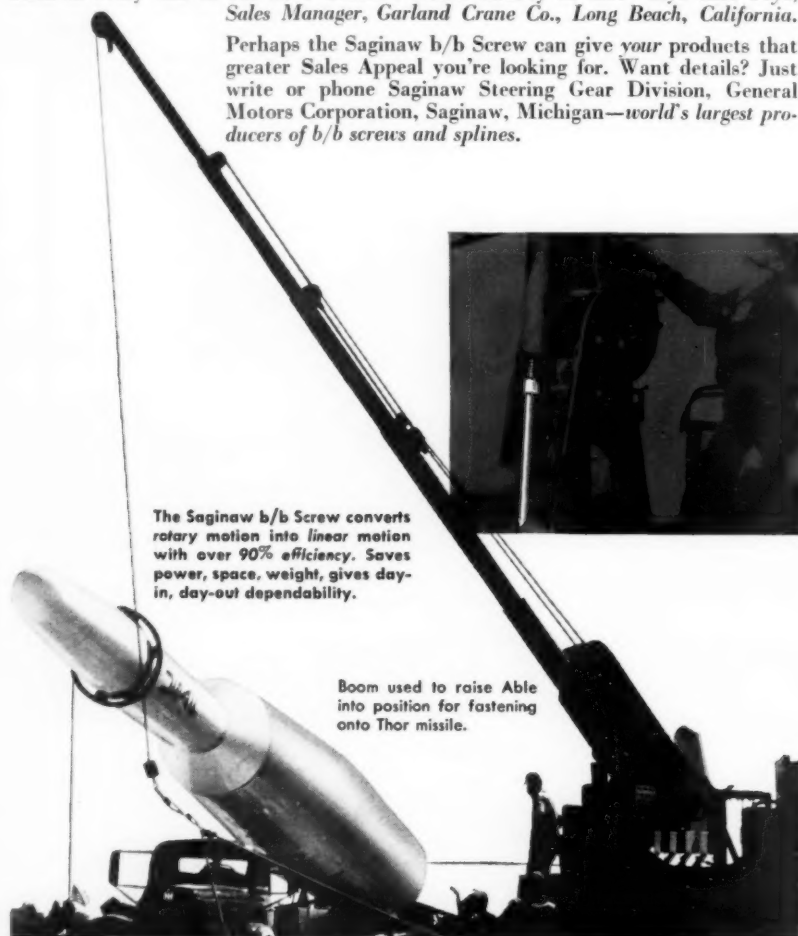


THE SAGINAW^{b/b} SCREW SAVED THE DAY WHEN...

A Garland Telescopic Crane Had to Lift an Atlas Missile!

"We were really up against it when we had to put up a 3-ton Atlas Missile for display at the World Congress of Flight in Las Vegas. Our telescopic crane was unable to 'boom up' that much weight, with the high-friction threaded shaft we'd been using. Thanks to the competent assistance of your factory representative, and prompt delivery of the proper Saginaw Ball Bearing Screw, we licked the problem over a week-end. The Saginaw Screw's 90%-plus efficiency *actually tripled* our crane's boom-raising capability! It even brought us a *second* order from the Air Force. We're not only going to add Saginaw Screws to every new Garland crane, but install them in every one of the 1200 Garland cranes already in use!" says *Carl Frye, Sales Manager, Garland Crane Co., Long Beach, California.*

Perhaps the Saginaw b/b Screw can give *your* products that greater Sales Appeal you're looking for. Want details? Just write or phone Saginaw Steering Gear Division, General Motors Corporation, Saginaw, Michigan—*world's largest producers of b/b screws and splines.*



The Saginaw b/b Screw converts rotary motion into linear motion with over 90% efficiency. Saves power, space, weight, gives day-in, day-out dependability.

Boom used to raise Able into position for fastening onto Thor missile.

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Have been built as small as 3/8 in. B.C.D. and 1 1/2 in. long, as large as 6 in. B.C.D. and 40 ft. long. Larger sizes can be built to your order.

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WORLD'S MOST EFFICIENT ACTUATION DEVICE



ball bearing screw

dissatisfaction through paid advertisements in Buenos Aires newspapers, charging Stark's group with foul play.

The combine still had to put in three months of tough negotiations with YPF over contract details. "But we got a good contract," says Stark. It is a tightly written document that protects the combine from developments beyond the control of the parties, such as political upheaval or drastic changes in Argentine law. Each condition applying to the contract is carefully spelled out, and increased costs resulting from deviations can be passed on to YPF by the contractor.

The two parties finally signed the contract in October, 1957. They agreed that the combine would have one year to arrange financing and that construction would start in October, 1958. Actually, four companies signed for the combine—North American International, Fish Engineering and its subsidiary, Fish Northwest, and Tipsa. Although Tipsa acted only as a representative of the U.S. companies, the combine wanted Tipsa in for political and public relations reasons. With "anti-Yanquism" almost always a concern in Latin America, a local partner helps smooth things over.

- **No Deposit**—Immediately after signing the contract Stark posted a \$10.8-million guarantee with YPF that his group would complete the work satisfactorily and on time. This Stark arranged privately in dollars with a Swiss bank.

Stark demurs on details, except that the arrangement did not include a deposit—a marked departure from normal contracting practice in which the contractor obtains a "performance bond" valued at 10% to 50% of the contract from an insurance company.

- **Logistics and Credit**—With the preliminaries out of the way, Fish and Stark had to answer two questions: "How do we go about doing this job?" and "How do we pay for it?"

The actual construction of a pipeline, even such a long one, is not an overpowering task for experienced constructors. But the logistics requirements of the Campo Duran project were immense. The combine had to assemble \$200-million worth of engineering brainpower, labor, materials, and equipment, and bring it in from many distant points.

Tied to the logistics difficulties, and compounding them, were the financial aspects. Before they could buy and ship machinery, or steel pipes, the contractors had to establish the credit of a client with slim visible assets. Moreover, it had to get funds in a half-dozen currencies to pay for the material. It couldn't buy everything in the U.S. because of the high cost of capital goods here. In Europe, the

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Look what Raleigh ships by Air Express in one day!

Raleigh makes transcriptions—recordings of advertising commercials and pre-recorded programs to be broadcast from many radio stations. There's no margin for error—one slip-up and the sponsor doesn't get what he paid for. Only AIR EXPRESS gives Raleigh Records receipted, on-time delivery—overnight . . . coast-to-coast. The big difference is AIR EXPRESS dependability. It's the nation's most complete air-ground shipping service. One phone call arranges everything—and AIR EXPRESS rates are low. Use AIR EXPRESS—jet-age wings of modern marketing—and you're **FIRST TO MARKET . . . FIRST TO SELL.**

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in one load than
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This is just one example of how Clark machines bring mobility to the industries of the world . . . mobility that frees men for more useful, less dangerous, more satisfying jobs than lifting, loading, and lugging. There are many other advantages. We'd be glad to tell you about them.

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materials were not available in any one country.

• **Maze**—First need was an organization. To give itself corporate status, the combine set up International Pipeline Constructors, S.A. (IPCO). Stark and Fish chose Panama for its headquarters because that country has favorable incorporation laws. It also has no tax on income from outside the country. As a good part of the combine's profit generated in Europe, the U.S., and Argentina would later flow through IPCO, this tax advantage is obvious.

Then the partners set up a maze of subcontractors and subsidiaries (chart, page 73). Stark explains that they did this to divide up the specific jobs for the project. But the structure probably also serves to take best advantage of tax laws of various countries, to minimize political interference, and to provide necessary channels for remitting profits.

The two partners split functions into financing, purchasing, and shipping, which Stark handled, and engineering and construction, allotted to Fish. Stark was also charged with over-all supervision. To do these jobs, each organized another company in Panama—North American Utility International, S.A., and Fish Engineering International Co.

Stark, as president of North American Utility International, operated in Europe through Noricansa, S.A., of Geneva, an established subsidiary of his North American Utility & Construction Corp., New York. IPCO authorized Stark's New York company to carry on all financial, purchasing, and shipping operations in the U.S.

For its part, Fish Engineering International placed engineering subcontracts with Fish Engineering Corp., and its subsidiary, Fish Northwest, both of Houston.

• **Argentine Setup**—For construction and financing operations in Argentina, the combine, including Tipsa, set up Sociedad Argentina Obras Oleoductos y Gasoductos (SARGO), with Tipsa officials as managers. While not required by Argentine law, a local company was good politics.

SARGO, in turn, let construction subcontracts to two more companies. Cogar, S.A., was organized by Fish engineers and Argentine interests to build the gas line. Techint, the Italian company that started the product line, got the contract to finish it. These companies were supervised by Fish Northwest's president, Richard D. Ricketts, for pipelines, and Fish Engineering's president, Curtis Ames, for plant installation.

All this may look like a complete jumble—an organization man's nightmare. But it's all set up on the basic framework of only two U.S. companies,

North American Utility & Construction, and Fish Engineering, and their Argentine adjunct, Tipsa.

III. Maneuvering the Finances

Wearing his various North American, IPCO, and Noricansa hats, Stark began his maneuvers to obtain and pay for materials and equipment from outside Argentina. He appears not to have laid out a clear-cut strategy, but rather to have gone along by seat-of-the-pants methods. Nevertheless, several guideposts are discernible.

• With the exception of the U.S., Stark dealt only with members of the "Paris Club"—a group of 11 European nations that got together with Argentina in 1957 to help it amortize its commercial indebtedness in an orderly manner. That agreement provided for free exchange of currencies.

• He bought in countries where he could get the capital goods he needed at the best price and fastest delivery, and whose governments had facilities for insuring credits for export.

• He went to banks that knew him and might be willing to take the risk he would ask of them.

Like most successful entrepreneurs, Stark operated where circumstances favored him. And where they didn't, he appears to have done his best to make the situation meet his needs.

Stark's primary weapons throughout these maneuvers seem to have been personal salesmanship, boundless energy and persistence, mastery of the innumerable details involved, and timing. His favorite expression in describing the ending of a number of transactions is "Well, we made a deal with them." He's well equipped for this sort of venture, speaking several languages including French, Spanish, German, and Italian.

• **What He Worked With**—YPF had specified it would need six years credit to pay for the pipeline. It figured two to three years to build the pipeline and get it working smoothly and three more years to pay for it from earnings and savings on foreign exchange.

Through its bank, Banco Industrial de la Republica Argentina, YPF gave the combine's holding company \$154-million worth of letters of credit, special promissory notes, and other instruments of payment naming IPCO beneficiary. This made IPCO the recipient of funds drawn on YPF's credit.

Of these credits, \$115-million were for European currencies, \$39-million for U.S. dollars. YPF assigned the credits on the contractor's estimates of where he could make the best buys.

In addition, SARGO in Argentina got \$46-million for local expenditures, making a total of \$200-million. Of this, \$180-million was for construc-



Other package designs fabricated from acetate sheeting by J. E. Plastics Manufacturing Corporation, 1780 Broadway, New York 19, N. Y. Their colorful catalogue of packaging ideas will be sent on request.



Sift-proof Crystal Container with pouring fitment and locked-in bottom disc.

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Package for leading brush manufacturer displayed by Mr. Herbert Magnes, President of J. E. Plastics Manufacturing Corp.

"J. E. Plastics uses Celanese Acetate sheeting to fabricate new, sift-proof *Crystal** Containers"

"Our new Crystal Containers are a 'natural' for packaging products, both permanently locked-in or removable. The packages are sift-proof and pour easily," says Mr. Herbert Magnes. "We use acetate because of its sparkling, crystal-clear transparency. Acetate provides maximum visibility, assures strong and rigid cylindrical walls, and takes clear, sharp printing with transparent or opaque colors. Most importantly, it is economical—the cost of Crystal Containers is actually lower than any comparable package on the market."

Acetate makes possible the unique J-E method of fabricating Crystal Containers without using any cement or adhesive. For packaging popular priced products: bath salts, face

powders, crystals, capsules, pills, etc., these sift-proof transparent acetate containers are ideal. J. E. Crystal Containers with other types of locked-in or removable tops, are the choice for packaging various products—from baby clothes to bobby pins, from cosmetics to hardware, etc. Acetate sheeting can be thermoformed using automatic machinery to achieve high rates of forming, filling and sealing. For information on the properties and thermoforming of acetate sheet and film, write to: Celanese Plastics Company, a Division of Celanese Corporation of America, 744 Broad Street, Newark 2, N.J.

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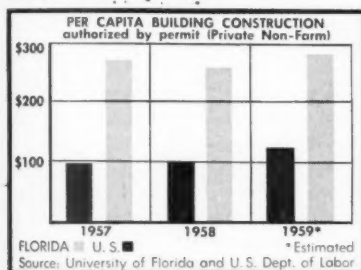
Florida

... construction paces vigorous growth

A BILLION-AND-A-QUARTER DOLLARS worth of private building construction in 1959 reflects the speed of Florida's growth and the extent of the state's industrial and commercial expansion.

A hundred-and-thirty-thousand men and women—more than ten per cent of total employment in the state's non-farm establishments—are engaged in contract construction. *This is more than double the ratio for the country as a whole.*

Increases in construction totals in Florida have been steady for many years, and the first nine months of 1959 volume showed a 13.7 per cent rise over the same 1958 period.



HOME BUILDING SETS NEW RECORDS

As industry in Florida grows and population rises, demand for new homes increases. Over 90,000 housing units were authorized in the state in 1958. They represented a per capita investment of \$182. The per capita investment for the country as a whole during the year was \$59. Yet housing in Florida has barely kept pace with the state's growth in population, which rose 72 per cent between 1950 and 1959.

Much of the residential construction is directly linked with the state's industrial growth. As manufacturing centers rise near the major cities, Florida builders anticipate the needs of the workers and plan homes for them. Not infrequently, these plans take the form of self-contained communities with several thousand residents.

EXTENSIVE FACTORY CONSTRUCTION

Industrial construction itself is a major factor in the Florida picture. New factories are going up in all parts of the state. In Panama City, Bradshaw Steel and Forge Company completed a steel flange and fittings plant in September. In Palm Bay, Radiation, Inc., is adding 104,000 square feet of space to its electronics equipment facility this year.

More than 2,100 new manufacturing plants or expansions have been announced in Florida in the last three-and-one-half years. Shown here: Construction on Thatcher Glass Company plant in Tampa. Manufacture of glass is among industries benefiting from statewide distribution of natural gas which began last June.

JOS. SCHLITZ BREWING COMPANY opened a \$20 million brewery in Tampa last spring. In August, Anheuser-Busch Brewing Company announced a \$5 million addition to its facility completed only two months earlier.

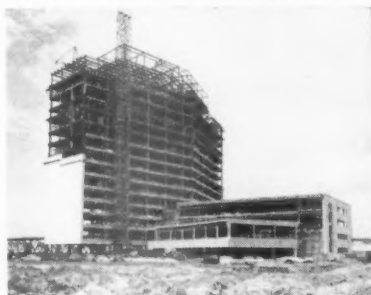
In announcing plans for a new plant in Miami, Anodyne, Inc., cited low Florida building costs. E. T. Turney, Jr., president of North Shore Nameplate, Inc., a division of Anodyne, said, "Extensive studies reveal that a saving of about 18 per cent in costs is possible in Florida and a similar economy can be achieved in year-round maintenance and operating expenses."

HALF A BILLION FOR POWER PLANTS

Florida's four major power companies spent \$152 million for construction in 1958—have announced plans to spend almost half-a-billion in 1959-61.

New contracts for road and highway construction set a record of \$133 million in the last fiscal year and are expected to be even larger this year.

Hotel, motel and apartment building, while only 11 per cent of the residential total, was \$91 million in 1958.



Clean-cut new office buildings are rising on the Florida skyline. Shown here: Work on Atlantic Coast Line's multi-million-dollar structure in Jacksonville. Early this year, ACL headquarters will be moved from North Carolina, adding 1,200 persons to Jacksonville's payrolls.

SUPPLIER INDUSTRIES PROSPER

Construction in Florida provides a sound basis for hundreds of supplier industries.

AIR CONTROL PRODUCTS, INC., Miami, employs 900 in the manufacture of aluminum jalousies, sliding windows and doors, and tub enclosures.

ARMSTRONG CORK COMPANY last year added 40,000 square feet of space to its Pensacola plant for the manufacture of ceiling tile. Florida Steel Corporation, Tampa, expanded last year, now employs 700 in structural steel fabrication.

DUDLEY LOCK COMPANY opened a plant in Vero Beach last summer.

MAULE INDUSTRIES, INC., employing 950 in Miami, is one of many Florida firms producing concrete, concrete blocks and similar products.

FLORIDA BUILDS ON SOLID GROUND

The high level of construction in Florida is based on the state's diversified growth.

Manufacturing employment has more than doubled during the last decade. This compares with a national increase in manufacturing employment of approximately fourteen per cent.

In number of new corporations, Florida ranks third in the nation.

Foreign trade by vessel through the state's 13 deep water ports increased 61 per cent between 1954 and 1958.

Cash farm income in Florida rose 42 per cent between 1950 and 1958.

Value of production of mines gained 27 per cent between 1955 and 1958.

Personal income rose from \$3.632 billion in 1950 to \$8.334 billion in 1958.



This new drawbridge at Hallandale will span the Intracoastal Waterway which stretches from Key West to New Jersey.

WRITE FOR INFORMATIVE SURVEYS

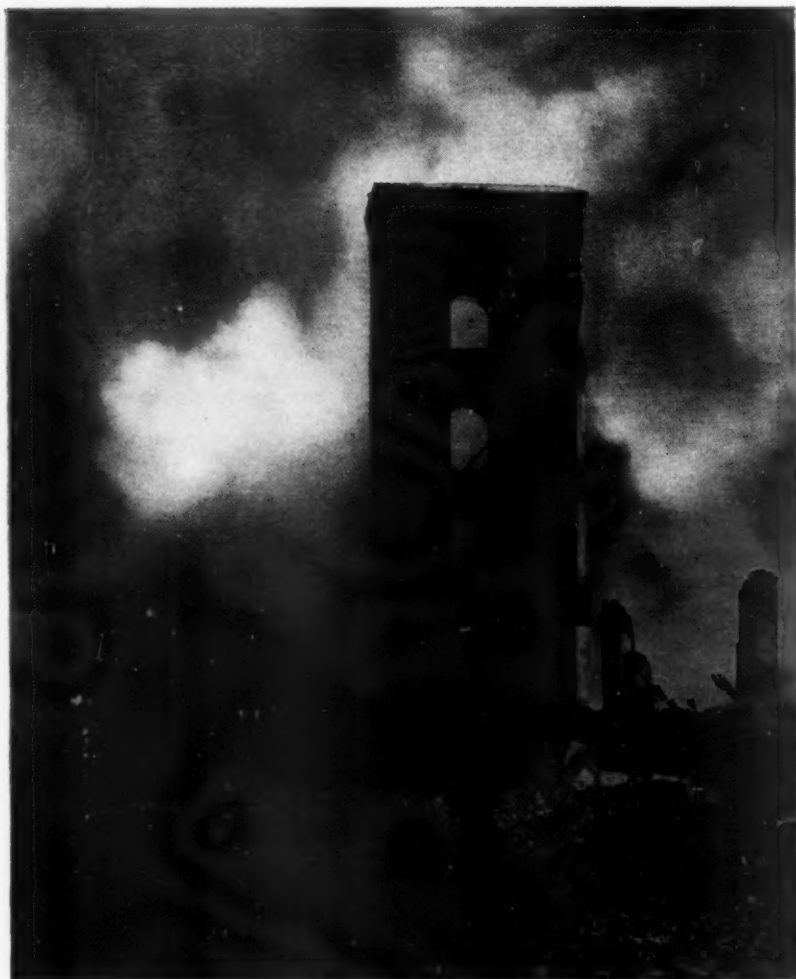
This is the 14th in a series of industrial advertisements. A file folder, *Profile of Progress*, is available through the Industrial Services Division of the Florida Development Commission, covering:

Markets, Manpower, Transportation and Ports, Climate and Living Conditions, Taxes and Government, Research, Materials and Resources, Power and Water, Industrial Growth.

The Industrial Services Division will assist in screening available plant sites throughout Florida without revealing company identities. It will gladly provide concise facts and information tailored to the needs of any company which is interested in Florida as a possible location. All inquiries will be held in strictest confidence.

Write today to B. R. Fuller, Jr., Executive Director, Florida Development Commission, 3903-6 Carlton Building, Tallahassee.

See industrial Florida for yourself. Write State of Florida, Dept. B, Carlton Building, Tallahassee, for new, 100-page color Vacation Guide Book to help plan your Florida tour.



This \$5,000,000 fire might have been prevented with a steel pipe sprinkler system

When these New England buildings burned to the ground, \$5,000,000 went up in flames. Yet how different the ending could have been if a *steel pipe* fire sprinkler system had been installed and the fire checked at its inception.

Yes, it pays to have an automatic sprinkler system in any building—store or warehouse, hospital or hotel, theater or school. As to cost—insurance premium savings often more than pay for the system's installation.

Backbone, of course, of fire sprinkler systems is dependable *steel pipe*. Building owners, architects, engineers and contractors know that low-cost, easily-worked *steel pipe* provides lasting and dependable service. That's why *steel pipe* is first choice for fire sprinkler systems, electrical conduit, vent and drainage lines, structural uses, radiant heating, snow melting, refrigeration, ice making and gas, air and water transmission lines.

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- Threads smoothly, cleanly
- Sound joints, welded or coupled
- Grades, finishes for all purposes
- Available everywhere from stock

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tion and \$20-million for financial charges. In the end, the project will cost about \$206-million, with adjustments for various price increases.

• **Financial Rounds**—IPCO invested Stark with full powers-of-attorney so he could freely place YPF's instruments of payment. Starting in Paris, Stark and his principal negotiating assistant, Marcel Degraye, began making the rounds of European financial centers. They approached banks that were big enough to put up the large amounts of credit needed, ones with experience in complicated international finance, and those with which Stark had dealt before.

Stark couldn't get every bank he approached to accept YPF's instruments of payment as a basis for credit. Some pointed to Argentina's precarious economic position and doubted that YPF could meet its obligations if they granted loans. Stark declines to name the banks that turned him down. He chuckles, "You don't tell your wife about the girls you knew before you were married, do you?"

• **Insurance**—But Stark convinced a number of banks that their risk in taking YPF's notes would be small. A primary persuader here was government insurance of the credits. Most West European governments have facilities for this, to encourage export of capital goods. They are patterned after Britain's Export Credits Guarantee Dept., which, under a standard policy, will reimburse a British capital goods exporter up to 85% of a shipment's value should the buyer fail to pay.

Stark was able to get such government agencies as France's COFACE and West Germany's HERMES to guarantee the credits by showing them how much business it would bring to suppliers in their countries.

• **Recession Aid**—This was during the 1957-58 recession, and suppliers were more than usually eager to sell. And banks wanted to put money to work, which helped influence the government insuring agencies. Stark concedes that the recession was some aid. "With today's conditions, I wonder if we could do it again," he muses.

Among the banks that extended credit to YPF were Credit Lyonnais in France; Dresdner Bank in West Germany; Banca Nazionale del Lavoro, Banca Commerciale Italiana, and Banco di Roma in Italy; Bank of London and South America in England; and Union de Banques Suisses Handelsfinanz and Leubank in Switzerland.

• **Key Piece**—Apparently, setting up these government-insured credits was the essential piece of the puzzle. While plenty of difficulties still loomed ahead, once these transactions got moving, other pieces fell into place. Government-backed credits appear to have

made those not covered with insurance more willing to go along.

It took Stark two to six months to arrange each of dozens of transactions in Europe and the U.S. Each order had to be separately negotiated with the supplier, bank, and government credit guarantee department. This meant scurrying back and forth among the parties concerned until all were agreed.

Then Stark, or his delegate, Nicholas Caranfil, of Noricansa, would place a firm order. The supplier, upon shipment, would present a shipping document to IPCO or, in some cases, directly to the bank. IPCO would then assign YPF's credit instrument to the supplier, who would be paid in full by the bank.

• **U.S. Task**—In the U.S., Stark had an even more formidable test. He couldn't get in the U.S. the same governmental guarantee he got across the Atlantic. The Export-Import Bank in Washington generally provides this service to encourage U.S. capital goods exports—but not for foreign government-owned oil monopolies.

Nevertheless, Stark was able to arrange with several U.S. banks, including Chase Manhattan Bank and First National City Bank in New York, and First National Bank of Boston, for \$39-million in credits similar to those he set up in Europe.

One U.S. financier reports that Stark was able to get what he did here by impressing bankers with the "great deal of research he had done, his extensive knowledge of payments and currencies, and his belief in the pipeline as a worthwhile project."

• **Cold Cash**—But Stark needed more than credit. He needed about \$8-million in cold cash in European currencies for downpayments required by government insurance agencies. And the \$39-million in U.S. credits on YPF which he placed with U.S. banks wasn't enough to buy pipe and heavy construction equipment he needed from the U.S. That would take an additional \$29-million.

Stark won't divulge all the involved details of how he obtained this money. Basically, for his European cash needs, he got certain European banks to give him cash in local currencies in exchange for some of YPF's instruments of payment. To get U.S. dollars, he persuaded European banks to set up letters of credit in U.S. banks amounting to \$20-million, against which he could draw to pay U.S. suppliers cash. And he talked several U.S. suppliers into accepting about \$9-million more of YPF's credit notes.

• **Roundabout Routes**—With all this, Stark still didn't have enough to buy all he needed from the U.S. So he persuaded some U.S. manufacturers to license European producers to make U.S.

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items in Europe—so he could buy them for European currencies. Among those who went along was Clark Bros. Co., of New York, which licensed Ets. Dujardin & Cie., of France, and Cantieri Navali Riuniti, of Italy, to make compressors.

Another hurdle was that Austrian suppliers of steel plate would accept YPF's credit notes for only 12,000 tons of the 46,000 tons Stark needed. But Stark found a Japanese company willing to sell, so he ordered the rest from it. He gave a West German bank YPF's instrument of payment; it paid the Japanese in yen and will be repaid by YPF in marks.

• **Final Coup**—By July, 1958, most of the orders had been placed and arrangements for payment made. Stark won't attempt to count the number of calls he made to conduct the negotiations but says "there must have been hundreds. One time, I saw six people in Paris in the morning, flew to Geneva for more conferences in the afternoon and evening, and then flew to London for meetings the next morning."

There was one more coup. Although YPF was responsible for paying for ocean shipping, the contract stipulated that Stark would arrange for it. Stark broke the shipping conference rates and claims he saved YPF a tidy \$12-million. To do this, he went outside the conference to hire ships. As this was the middle of the recession, this hurt shippers more than it ordinarily might. So the conference shippers fell into line, reducing rates to a level where YPF had to pay only one-third of the prevailing rate, according to Stark.

IV. Cashing In

Many people made much money on this project, which was expensive. A similar line in the midwestern U.S. would have cost something like \$125-million to \$150-million instead of \$206-million. The cost of financing was perhaps the largest single item pushing the ticket up. It added 7% to 10% on each purchase.

The bulk of IPCO's profit came from these purchasing transactions. It got the difference between the amount of the instrument of payment, less insurance and financial charges, and the price paid the supplier. Other profits came from fees paid to Fish Engineering and North American Utility & Construction and their subsidiaries for their services.

IPCO made a nice profit on this project, but Stark won't disclose how much. He says he's not exactly sure how much they made nor how much they'll have left after taxes. Most of the profit is concentrated in IPCO's operations and will be remitted to the U.S. through IPCO. Stark hopes to be taxed on capital gains on a good part of it. **END**

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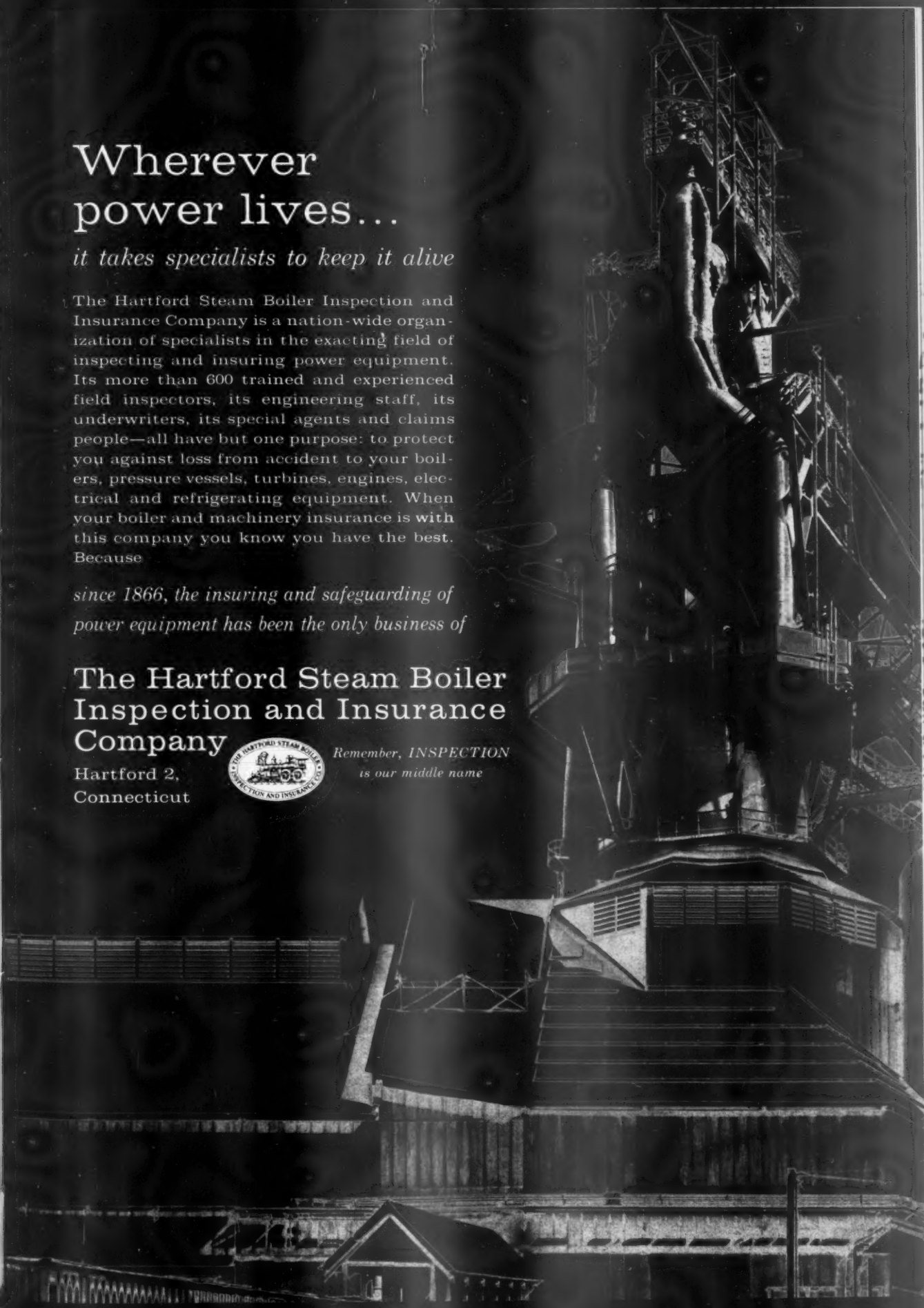
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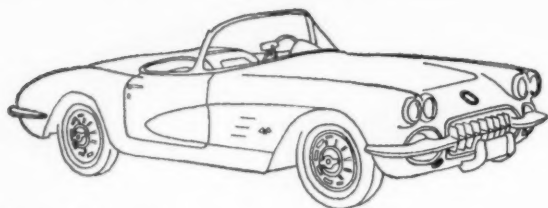


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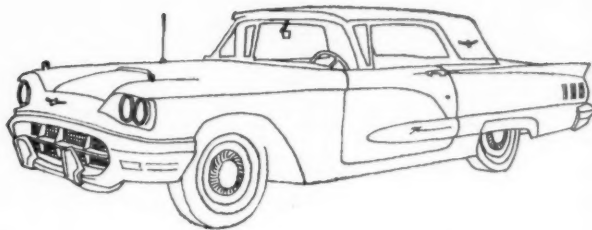


MARKETING

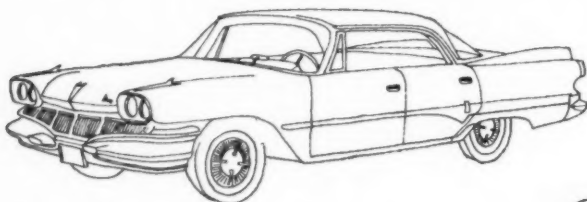
A smaller car for every taste



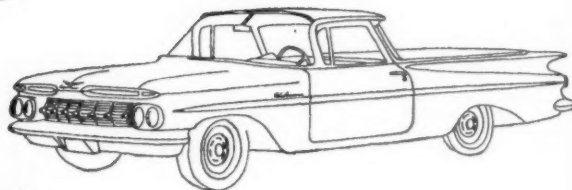
Chevrolet Corvette



Ford Thunderbird



Dodge Dart



Chevrolet El Camino

Ford's New Comet: Still More V

In the office that once was the throne room of Henry Ford—the man who built his empire on a single car that was all things to all men—a suave Ford Motor Co. vice-president concedes that Detroit no longer is cocksure about its customers or their tastes.

"A few years ago," says Ben D. Mills, general manager of the Lincoln-Mercury Div., "we used to have pat answers for everything—now I come armed with more questions than answers."

Ford is not the only member of the Big Three that's mulling over how it can design a car for consumers who seemingly change their tastes between the time when product planners set a goal and the time, two or three years later, when the car goes on sale.

Over in the ancient Dodge Bros. plant in Hamtramck, built before Chrysler Corp. was formed, Dodge Div. general manager M. C. Patterson muses over a question about small-car buyers' demands and says with a still detectable burr: "If I could answer that question, I'd feel r-r-real good. All we can do is be ready to move into the market when we find out."

• **New Comet in Orbit**—The question of what auto buyers want is of particular concern this week to Mills of Lincoln-Mercury, as he shows off the new, smaller Comet (cover) which his dealers will put on sale Mar. 17.

Before the end of the year, Patterson's Dodge dealers and GM's Buick, Oldsmobile, and Pontiac dealers will also be testing the compact market with new—and different—cars. They all feel that the small cars already being gobbled up by the public are not the last word or the sole answer.

The Ford Falcon, Chevrolet Corvair, and Chrysler Valiant (BW-Oct. 3'59,p102) are not, strictly speaking, comparable with each other in either price or design—at least not when you consider the sameness of the Ford, Chevy, and Plymouth in recent years.

Now the second generation of the Big Three's smaller cars—led by the "luxury" Comet—will carry this determination for variety even further.

• **New Approach**—There are indications that U.S. auto makers are considering even more radical lures to ensnare the elusive car buyer.

Ford sees an emerging "segmented market" as the reason for the variety and number of new small cars. Some executives say the move into such cars is also a means of giving every medium-price dealer a car to sell in the "volume" market. Others contend it is a sign of experimentation in an unknown market segment and that, once a definite trend is discovered, all auto makers will rush to conform to it.

Whatever the reason, there is little

doubt the introduction of the Comet marks a new era in Detroit: a smaller car for every customer.

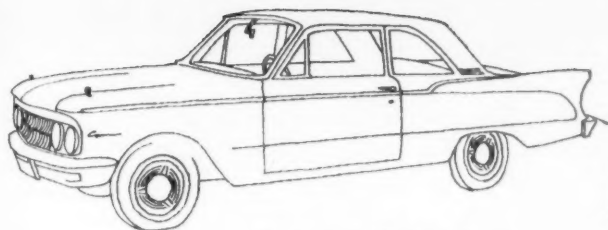
1. Ford's Segmented Market

Ever since Ford Div.'s surprising success in 1958 with the four-place Thunderbird—marketers planned on 30,000 sales the first year, actually reaped 45,000, and last year counted up 70,000—Dearborn's auto men have been talking about the "segmented market."

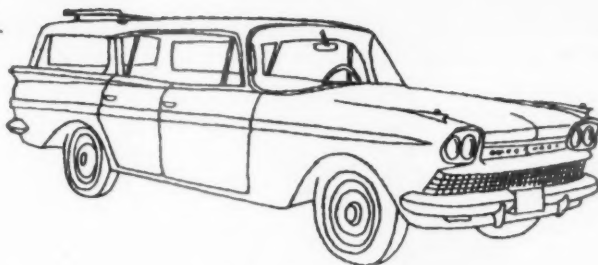
Their words were backed by the spectacular rise in station wagon sales—from something under 3% of the market in 1951 to about 17% last year. And American Motors Corp. put its revamped 100-in.-wheelbase Rambler American on sale in 1958 with the hope it would sell 10,000 units; last year, the volume was 10 times that.

• **Special-Use Cars**—Even specialized vehicles with limited markets have proved successful for their makers. Consider the Ford Ranchero, a pickup truck with a passenger car front. Ford introduced it in 1957 and quickly established a market for about 25,000 units, although when Chevrolet came out with its competitive El Camino, the total market for such vehicles never did rise much above 35,000.

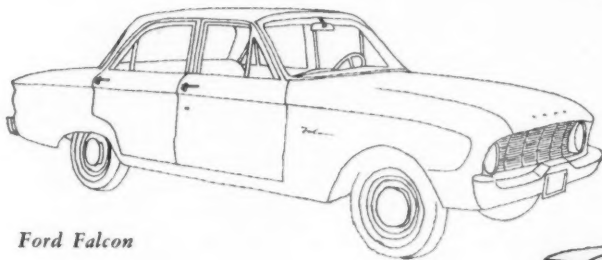
The growth of a solid multiple-car-



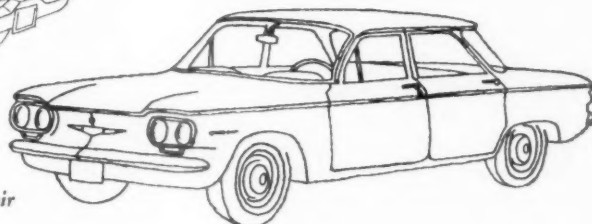
Ford's new Mercury Comet



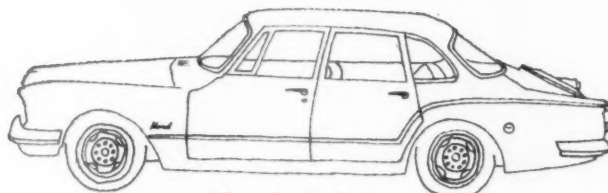
AMC's Rambler Ambassador



Ford Falcon



Chevrolet Corvair



Chrysler Valiant

re Variety

family market in the last five years strengthened Ford's analysis of a special-use, or "segmented," market even further. Ford vice-president and director of styling George W. Walker put it this way: "We're drifting away from the idea that one car has to serve every purpose."

So the Falcon was brought out as a utilitarian, sheer economy car, principally aimed at the second and third car market. The Corvair was directed more to the driving enthusiast, and the Valiant to the one-car, economy market.

• **New Concept**—The Comet, though, is something else. It stresses elegant interior trim, easier riding, and "big car" styling, while clinging to the Falcon's economy. Rather than being a "medium-priced" compact, the Comet will cost only \$85 more than comparable Falcon models (thus selling for about the same as the Valiant).

The lowest-price Comet, a two-door sedan at \$1,998 (plus taxes and shipping), is marked lower than 10 models of other compact cars, Lincoln-Mercury claims. It is also below the cheapest price for the standard-sized Ford, Plymouth, or Chevy. The highest Comet label price is on the four-door station wagon—\$2,365.

Although utilizing the same mechanical components, door stampings, and passenger space as the Falcon, the

Comet (at 195 in.) is about a foot longer, has $4\frac{1}{2}$ in. more wheelbase (114 in.), and a larger trunk. The engine is a conventional six, with 90 hp.

The rationale for such a "luxury" or "high-style" compact car, according to Herbert Fisher, manager of marketing research for Lincoln-Mercury, is this: "We expect the Comet will have appeal for people to whom the Valiant, Corvair, and Falcon have not appealed. It's been demonstrated there are people who'll pay more for other values—including intangibles like styling—particularly buyers of cars in the upper price ranges."

• **Almost by Itself**—Thus, it's expected that the Comet will appeal to women, higher-income groups for a second car, and white-collar groups. "In our product planning, we recognized economy as the dominant factor," Mills explains. But, as the Mercury is to the Ford, it was felt the Comet should be fancier than the Falcon.

The only other domestic entry in the luxury compact field at present is American Motors' Ambassador, the 117-in.-wheelbase successor to the old Nash

and Hudson big cars. Although sales of the Ambassador (about 25,000 in 1959) have held at 6% of AMC's total in spite of efforts to boost them, Ford executives are hopeful of reaching an annual volume of 125,000 Comets.

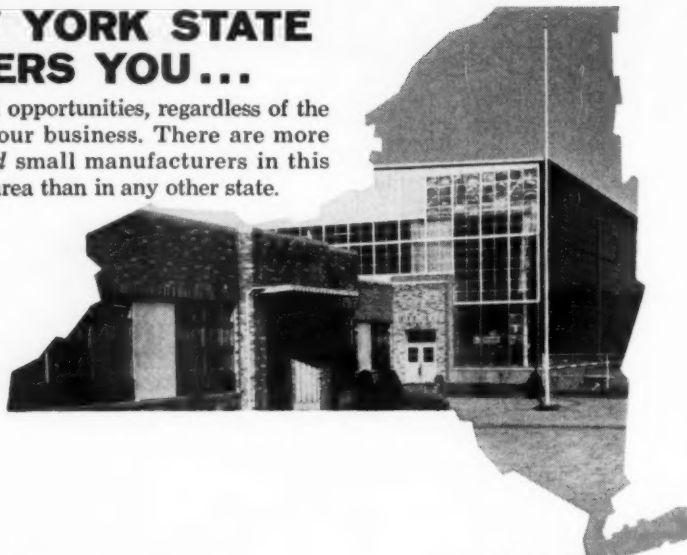
• **The Competition**—The luxury compacts yet to come from Ford's competitors apparently will differ from both the Comet and the Ambassador.

The Buick (possibly named "Invader") and Olds cars probably will have a 112-in. wheelbase, a front-mounted aluminum-block V-8 engine, and a transmission combined with differential on the rear axle ("transaxle"), and will utilize some Corvair body components. The Pontiac entry apparently will be smaller and may even have a new 4-cyl. powerplant.

The small Dodge (possibly named "Warrior"), on the other hand, will reportedly be a slightly larger, more de luxe version of the Valiant, much as the Comet is to the Falcon. The Dodge compact will probably be priced \$100 over the Comet, and the Buick and Olds cars, \$200 higher. If the Pontiac does come out with a four, it

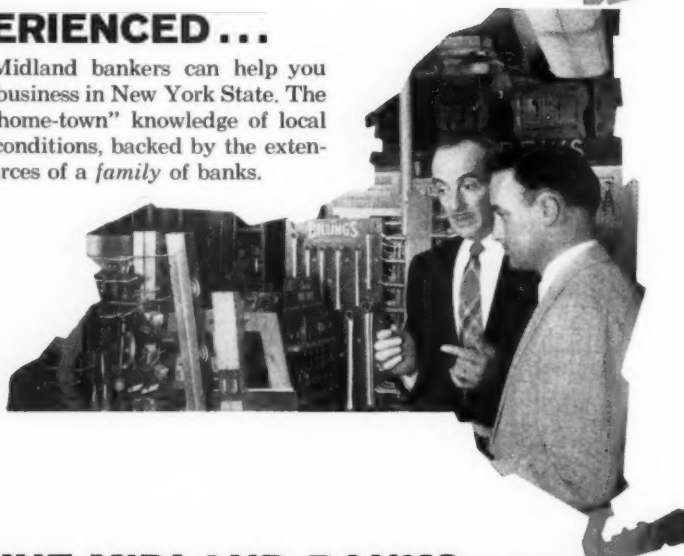
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might cost less than the Falcon and Corvair.

All these cars point to separate markets—perhaps more "splintered" than "segmented."

II. The Dealers

The rapidly shrinking market for medium-priced cars and the resulting squeeze on their long-established dealers are also solid reasons for the Big Three to bring out a second round of small cars.

"Traditionally, Ford, Chevrolet, and Plymouth have provided the mass economy transportation," points out Mills. "The medium-price dealers have never tried to do this."

Now that the low-priced brands have been upgraded to medium price, he asks: "Why do the traditional medium-price dealers have to be tied to the past in a market that is boiling?"

"We decided to move in," adds Richard E. Kimball, Comet planning manager.

• **Wide Range**—With the Comet, the Lincoln-Mercury Div.'s 2,600 dealers will be able to sell cars with price tags in a continuum from the Ford imports at \$1,600 to Continental Town Cars at \$10,000. Most Mercury dealers will get the Comet franchise. The exceptions are chiefly those who are already dualed with Ford (and thus Falcon) or with non-Ford compacts, and those who are financially unable.

Although many of General Motors' Buicks, Olds, and Pontiac dealers are dualed with either Chevrolet or Cadillac—especially in smaller towns—those who don't have the Corvair are clamoring for a lower-priced entry.

Dodge, too, is feeling the pressure since Chrysler's other two car-selling divisions are handling the Valiant. The new Dart was designed as a replacement for Plymouth with Dodge dealers and was aimed at the low-price market that had been selling about 60% of all cars. Now Dodge officials can see that the consumer was one step ahead, and the former low-price market may be shrinking while that for compacts rises.

Big Three imports have not filled the demand in this price class, either. Supply has been limited, and Mercury, Buick, Pontiac, and Dodge dealers feel there are many potential buyers in this class who don't want to buy a foreign car.

• **Getting Competitive**—The significance of compact cars for all the medium-price dealers is that all dealer bodies will soon be competitive. Formerly, Ford and Chevy dealers sold low-price, Mercury and B-O-P dealers the mediums. Then Ford and Chevy upgraded into the medium area with Thunderbirds, Galaxies, and Impalas. Now the medium-price dealers are com-

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* * *

In the United States, by contrast, public policies tend to reflect indifference to the railroads, while they encourage railroad competition.

Railroads are burdened with over-regulation and discriminatory taxation — while their competition uses highways, waterways and airways built and maintained by the government.

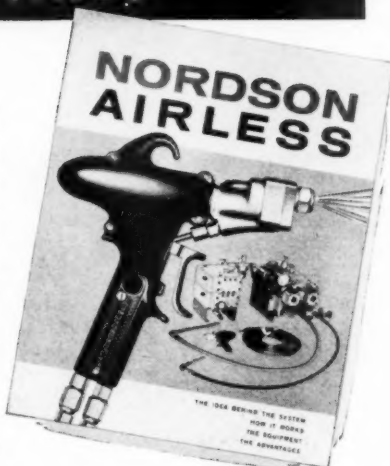
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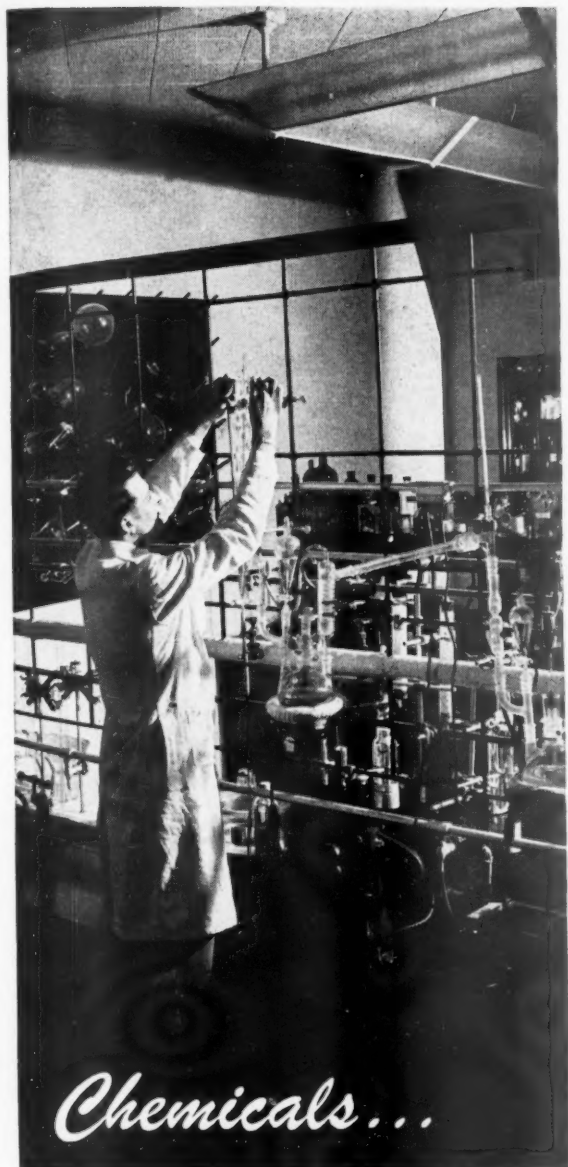
Advertising Pages — Business Week carried twice the total of any magazine in its field.

Number of Advertisers — Business Week carried over 200 more advertisers than any other general-business or news magazine.

Number of Exclusive Advertisers — Business Week carried more exclusive accounts than the three leading general-business magazines combined, nearly twice the total of any management magazine.

Chrysler Corp. dealers had a somewhat different problem with too many dealers trying to carve up Plymouth's traditional market share, but that is now changed with the new dealer alignments. Chrysler dealers, too, will be selling different products through the whole range, against each other and competitors as well.

"If it takes kiddie cars to meet the market," says Mills, "we'll build them." **END**



from Antifoams to Zeolites.

The A to Z range of Nalco's specialized industrial chemicals includes useful products for nearly every kind of industry. Some of them improve products, some protect equipment. Others reduce waste ... or catalyze a process ... and still others are chemical raw materials. If the list at the right hints at help for you, please take the hint ... and write for more details.

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ANTIFOAM CHEMICALS ... for manufacturers of paints, and paper ... for processors of sugar beets, and rubber ... for control of foam in any liquid processing.

ASPHALT ADDITIVES ... for better bonding of asphalt to aggregate ... easier road repairs ... longer lasting asphalt roads.

CHEMICAL INTERMEDIATES ... cyclic tertiary amines, quaternary ammonium chlorides, oxyalkylated products ... wherever surface-active agents are needed in chemical processing.

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Franchise Selling Catches On

● Since World War II, the number of businesses operating under a franchise has grown to an estimated 100,000.

● For the franchise holder, the setup means some independence plus the security of a tested business.

● For the franchising company, it offers quick, assured distribution and expansion at a relatively low cost.

"We are witnessing a new surge of small, independent enterprise. But, if we're going to be good, we've got to be good. That's why we're here."

Thus roughly you might paraphrase the thinking at a meeting in New York's Coliseum last week. Representatives of some 40 franchising corporations, blanketing 25,000 franchise holders, gathered to midwife and baptize the International Franchise Assn. According to A. L. Tunick, president of Chicken Delight chain of carry-out and delivery dinner outlets, and first president of the association, the group has two chief aims: to win recognition for franchising as a major method of merchandising, and to set up a code of ethics.

The meeting coincided with a Start Your Own Business show (BW-Mar. 21 '59, p.28), also at the Coliseum. About 65 exhibitors—not all of them franchise operators—sought to entice would-be entrepreneurs with their wares: rotisserie stands, doughnut-making equipment, laundry services. Timed to coincide with the meeting was the release of the first issue of *Modern Franchising*, published quarterly by Factual Publications, Inc., to keep franchising companies up to date on developments in the field, and to tell aspiring dealers of opportunities.

• **Pioneers**—The far-flung car dealerships and strings of gasoline stations across the country remind the business world that franchising has been around a long time. Big names such as Western Auto Supply, Ben Franklin Variety Stores, Howard Johnson have thrived under a franchise setup. But since World War II, and especially in the last three years, franchising has leapt forward. Rogers Sherwood, editor of the monthly *National Franchise Reports*, reckons maybe 50,000 independent businessmen are doing a job under some kind of franchising umbrella. Tunick figures that 100,000 would be a conservative estimate.

The first *Directory of Franchising Organizations*, compiled from Sherwood's reports, lists almost 200 franchising concerns—from bookkeeping services through baby safety equipment, cosmetics, drive-in and carry-out food

operations, motels, pancake shops, soft-serve ice cream stands, swimming pools, all the way to water softeners. Enticing names such as Dog N' Suds, Dunkin' Donuts of America, Pelton's Spudnuts, 7 Steers Specialty Restaurants spot the directory list.

• **How It Works**—The franchising formula varies from one operation to another. Basically, though, it's a system set up by a manufacturer or purveyor of services, which sets up under a single brand name a chain of small businessmen, who buy some of their equipment and supplies from the franchiser and run their own show—with some strings. To get a franchise, the dealer may pay a franchise fee—most of them under \$10,000, some as low as \$10—or he may simply make a downpayment on the equipment or plan. Usually, too, he pays a fee or royalty on his own sales. Franchising as the association defines it, Tunick says, is not a one-shot deal. A continuing relationship between franchiser and franchisee marks operations of its members.

For the franchising company, this setup offers quick, assured distribution and expansion at relatively low cost—since the franchise holder himself puts up some of the investment. The franchiser keeps title to the name and basic product or service rights. Because the franchise holder runs the business himself, the franchiser gets a dealer who is both cost and sales conscious.

For the franchise holder, the setup gives him some independence with the security of a tested business. His capital investment is relatively small—and financing comes easier with a big concern backing him. In effect, he gets the buying edge of a big chain, the parent's promotion and management knowhow. In some cases, he gets the plus of direct-from-manufacturer price. Sherwood estimates that bulk buying gives the dealer savings of anywhere from 30% to 50%. While he is subject to quality and other controls, he is basically a man on his own.

• **Postwar Spurt**—The first big spurt in franchise retailing came right after World War II. During the war, Tunick explains, GI's lived with two dreams:

the little white cottage they were going to own, and the prospect of a job with no boss to hound them. With their bonuses in their pockets, they constituted a fine potential for the franchiser.

The 1957-58 recession gave franchising another boost. Men lost their jobs, or got scared. They wanted security—and they wanted it in an easy-to-handle package.

Expanded credit is a major factor in contributing to franchising's growth, thinks J. J. Connolly, president of Roll-A-Grill Corp. of America, and a director of the association. Credit allows the little man to take part in the kind of enterprise that a Frank Woolworth built up for himself in the old days, he says.

In the last few months, several newcomers—large and small—have moved in. In November, Frank G. Shattuck Co. announced a new Franchise Div. for operation of Schrafft's restaurants, chiefly tied into new motel operations (BW-Nov. 28 '59, p.75). And last week, an ad in the *New York Times* urged people to go into the Franchised Art Galleries business.

I. Problems

While the new association insists that it is one of the few industry groups that didn't come into being primarily to deal with a problem, mushroom growth has brought problems aplenty in some lines. The soft ice cream field is a good case in point.

Right after the war, according to the Soft Serve Dairy Products Assn., there were only about 100 soft-serve stands in the country; today there are something like 18,000. This development came so fast, says Harry Kimpel, executive secretary of the association, that some franchise chains didn't organize properly. "A lot of smart operators saw an opening to make some money, and with a little solid promoting, set up stands wherever they could."

They would grant franchise, regardless of the candidate's own potential or the potential of his market—and leave him to his own plight after a day or so of training.

• **Tricks**—Fly-by-night operators sometimes deliberately chose poor locations. They would pocket the franchise holder's downpayment—maybe \$3,000 to \$5,000—and move on to another location. Some operators charged their franchisees different royalties, another factor making for friction. Some tricked ma and pa stands with a promise of an exclusive franchise—and neglected to mention that the same parent company might operate stands under different

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To get your free reports on labor, industrial sites, transportation, water, or other subjects—please drop me a line (outlining your specific needs) at the New York State Department of Commerce, Room 5521, 112 State St., Albany 7, N. Y. Or telephone HObart 2-7511. We'll also be glad to send you our free booklet "Industrial Location Services."

Keith S. McHugh

Keith S. McHugh, Commissioner,
N. Y. State Dept. of Commerce

brand names, which might sprout up across the street.

As a result, says Kimpel, turnover in the soft-serve business is about 25% a year. One industry source estimates that one-third of the stands are in trouble.

II. Who's Who

Nevertheless, several big organizations operate successfully in the soft-serve field—with names such as Carvel, Dairy Queen, Dari-Delite, Tastee-Freez. Now that the country is saturated with stationary stands, in some markets at least, mobile units, equipped to serve a variety of dishes from trucks, are burgeoning. Mr. Softee, Inc., and Dairy Dan have gone this route—and some of the older companies are taking to the road as choice sites get crowded.

• **Services, Too**—While the food field ranks first in the franchising field, services are coming up fast. ServiceMaster and DuraClean, carpet cleaners, have set up large franchised systems.

Home service organizations—the directory lists four—have sprouted and spread through franchised outlets. Allied Homeowners Assn. of Roslyn, N. Y., has opened up in 67 cities. National Home Owners Club, in Chicago, has 24 franchisees. Development of this group took an odd turn. Bozell & Jacobs, public relations consultants, got interested in franchising when it had such franchise operations as Midas Mufflers as clients. Now Bozell & Jacobs is half-owner of National Home Owners Club.

III. Case Study

A closer look at Chicken Delight shows how this kind of operation works.

Chicken Delight got its start in 1952 when Tunick, a scrap dealer, turned his \$25,000 investment in a defunct Rock Island (Ill.) manufacturing plant into a food operation. The plant had been making conduction cookers—but couldn't sell them. "We couldn't find anyone who wanted to buy the appliance," Tunick says, "but the chicken we used one day to demonstrate it was a hit." So the first Chicken Delight outlet was born. Today, there are over 160 outlets in 40 states and Canada, and Tunick hopes to double that number this year.

Chicken Delight offers four dishes—specified by franchise agreement: chicken, fish, shrimp, and ribs. All are prepared by a special process called conduction or searing. They are served in dinner-size or snack-size portions—about 80% of them delivered to the homes in trucks equipped to keep the food hot en route.

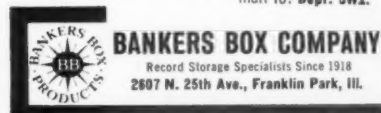
• **Cost**—The total cost of setting up an outlet runs to about \$12,000. Chicken Delight charges no franchise fee, but it



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Provide maximum protection at minimum cost. Highest grade corrugated fibre-board. All one piece—no parts to wear, get out of order. Single eyelet closure front and back provides quick, easy closing and opening—and absolute security. Labels factory applied, gummed titling strips with each box. 25 sizes. Sold by all leading stationers.

Send for **FREE** Manual of Record Storage Practice; complete products catalog. Clip ad to letterhead and mail to: Dept. BW2.



HANG FIXTURES SECURELY... USE

MOLLY

SCREW ANCHORS and JACK NUTS

PERFECT FASTENERS to hold anything on walls, floors, ceilings

With Molly you can install fixtures exactly where you want . . . not just where studs are. Won't pull through. Spider backing reinforces area in which used. Fixtures can be removed and replaced in same anchor. Easy to install without disfiguring wall. Inexpensive, guaranteed. Ask your hardware dealer for genuine Molly . . . the name is stamped on the cap.

New JACK NUTS HOLD IN HOLLOW-CORE FLUSH DOORS

Now you can fasten fixtures securely to flush doors! Jack Nuts need only $\frac{3}{8}$ " expansion space, grip any material up to $\frac{1}{2}$ " thick.

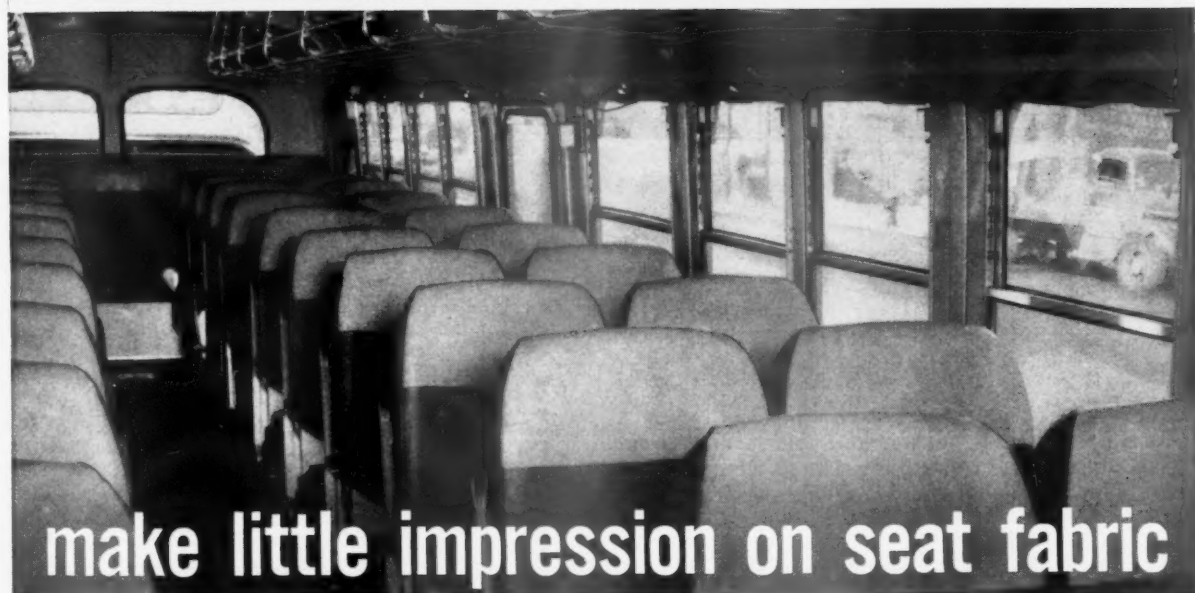
SEND \$1.00 FOR SAMPLE BOX OF 12

EXPANDS BEHIND WALL

MOLLY Corp., 230 N. 5th St., Reading, Pa.

Enclosed is \$1.00 for sample box of (check one) ☐ Mollys ☐ Jack Nuts

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ADDRESS _____
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Public Service Coordinated Transport, owner and operator of 2511 buses in New Jersey, with established routes into the cities of New York, Philadelphia and Wilmington, carried 290,000,000 passengers over 90,000,000 miles in 1958 alone. Impressive as these statistics sound, they made little or no impression on the heavy duty coated fabric upholstery used by the company. So sturdy is this material that much of Public Service's original purchase, made in 1947, is still standing up under everyday use.

In making Koroseal, the supported vinyl upholstery

material producing these amazing wear results, B. F. Goodrich looks to Wellington Sears for the strong fabric backing it requires . . . one of the many Wellington Sears fabrics engineered for specific jobs of all kinds.

For cotton or synthetic industrial textiles, more and more companies are turning to Wellington Sears—and taking advantage of our more than a century of experience in providing fabrics to industry. For help in your own fabric applications, write for technical assistance and a free illustrated booklet, "Fabrics Plus," Dept. C-2.

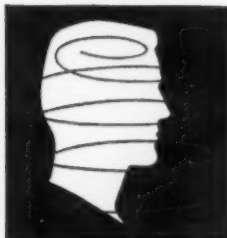
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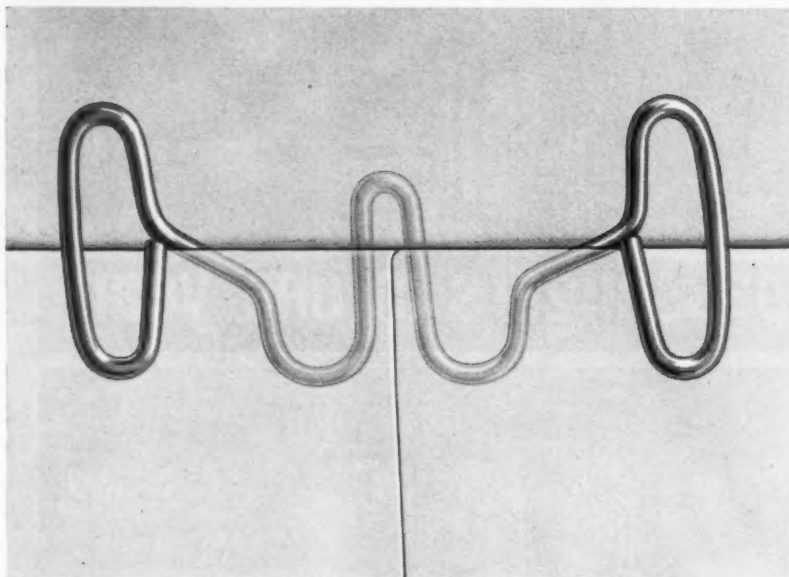
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KEYSTONE WIRE a tool for man's imagination



This is how Keystone Wire helped Dudek & Bock turn an idea into a reality

"We need a clip that will securely fasten gypsum board to steel upright studs—or join and hold sections of board in perfect alignment for plastering. Here's what it must look like."

This is the challenge. Designers at Dudek & Bock, Chicago, Illinois, roll up their shirt sleeves. They analyze wire requirements: tensile, size, uniformity. Length of run—a long one. Delivery—soon.

What wire fits these requirements? Keystone Silver Brite Galvanized high tensile wire is first choice. They know from experience they can depend on Keystone wire to perform exactly as calculated—order after order—run after run. By standardizing on Keystone wire for the majority of their needs, Dudek & Bock simplify quality control and manufacturing problems.

Result: another fastener problem solved with wire... delivery on schedule of this gypsum board clip and thousands of other items—and maximum customer satisfaction.

Perhaps creative imagination and Keystone wire can help you build your products faster, better, at lower cost. A Keystone cold heading or wire forming specialist is available to help you.

Keystone Steel & Wire Company, Peoria, Illinois

Cold heading and
forming wire for
industrial uses.



KEYSTONE

does require the operator to put up at least \$5,000. "We want him to have a definite financial interest," Tunick explains. The parent company helps the dealer get financing.

The franchise holder buys his equipment—cookers, fryers, trays, and the like—from Chicken Delight, which manufactures the basic units. He also buys from the parent the batter that is a specialty of the house, and packaging—which means paper plates, napkins that the dinner is served in. Chicken Delight's total initial equipment sales—including a starting supply of batter, packing, and promotion aids—come to about \$8,000.

• **Contract**—Well aware of the troubles the soft-serve industry fell into, Tunick relies on a strong franchise agreement. He maintains territorial divisions—down to the last block. "We give our men a two-mile radius guarantee in cities," he says, "which usually means between 50,000 and 75,000 potential customers. In small towns, one man has exclusive rights to the area."

The contract also spells out down to the last two ounces of chicken and last grain of salt what's to be included in each meal. The company checks from time to time to make sure the franchise holder is keeping his side of the bargain. He must buy his food—other than what Chicken Delight supplies—from sources that meet the company's standards.

The company supervisor in the area—there are eight in all—helps the dealer negotiate the lease for his property, do any remodeling, install the special equipment; the supervisor stays with the novice operator for his first week. Tunick estimates that it costs an operator 69¢ to put a dinner together. Retail price is flexible, but it runs about \$1.45—for a gross profit of 53%. Chicken Delight makes its profit from equipment, packaging, at 12¢ a dinner, and batter, at about 20¢ a lb.

The contract calls for a minimum of 500 sales a week; the average dealer sells about 1,000, Tunick says.

• **Variations**—Other operations run a bit differently. Dairy Dan's mobile soft-serve units, for example, operate through distributors, who screen would-be operators, get a commission on truck sales, control the sources, and get a royalty on sales—like the parent concern. Some big motel and restaurant operations, such as Howard Johnson and Holiday Inns, charge a relatively large franchise fee, and a royalty on room rentals.

Though franchised operations may lend themselves to part-time work, nobody undersells the kind of job a successful dealer must do. "The good franchise holder earns his keep," says Tunick. In fact, one secret of the system's success, he says, is that "the man who owns his business finds the 25th hour in the day to make it work." **END**

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this Hertz tractor and trailer, we even give
door-to-door service on LTL orders!"*



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For more information, call your local Hertz office. Or write for the fact-filled booklet, "How to Get Out of the Truck Business," to Hertz Truck Lease, Dept. A26, 218 South Wabash Avenue, Chicago 4, Illinois.





CRYSTALLIZING 20,000 tiny transistors

Tiny transistor hearts—20,000 at a time—are diffused in Hevi-Duty high temperature furnaces.

HEVI-DUTY furnaces handle the important jobs

HEVI-DUTY

A DIVISION OF
BASIC PRODUCTS CORPORATION



Hevi-Duty electric furnaces "cure" the thermosetting gold paste which joins crystal to lead wires on partly assembled semi-conductors.

Transistors, no bigger than the head of a match, play a big role in the fast-paced growth of the electronics business. Big, too, for many of the companies manufacturing these components, is the role of Hevi-Duty precision furnaces.

To produce transistors, high purity semi-conductor crystals are precisely "grown" from silicon seeds. This process calls for furnaces capable of maintaining uniform temperatures as high as 2560° F. over periods up to 150 hours.

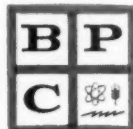
The crystals are sliced and diced into thousands of wafer thin "hearts." Then each minute heart is either diffused, oxidized, or alloyed in a Hevi-Duty furnace specifically designed for these operations. Final processing is the bonding of lead wires

to the wafers in Hevi-Duty Muffle Furnaces.

Hundreds of products and processes benefit from the use of Hevi-Duty furnaces, ovens and heating units. In the laboratory, in pilot plants and manufacturing operations, this equipment proves invaluable for such diverse processes as tempering and drawing tool and die steel, annealing glassware, drying precipitates, enameling, and ceramics firing.

Hevi-Duty Electric Company is a member of the growing family of industries that forms Basic Products Corporation. Our products are basic, ranging from essential elements used in foods and beverages, to complex components required by nearly every segment of American industry.

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MILWAUKEE, WISCONSIN

QUALITY is BASIC in our PRODUCTS

In Marketing

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New System Takes Cramp Out of Signing Up For Product Information at Expositions

Visitors to the Plant Maintenance & Engineering Show in Philadelphia this week are getting a taste of the newest in convention registration—and are saving many hours and countless mistakes in signing up for additional material on the products on exhibit.

When a visitor registers for the show, he is given a plastic Addressograph plate—much like some credit cards—embossed with his name, company, title, and address. Every booth in the show has at least one imprinting machine, and if the visitor wants more information on the product or wants a salesman to call, he simply gives his plastic plate to an attendant who slips it into the machine and gets all the information on a file card. This eliminates hand writing cards at each booth, which probably means that visitors sign up for more mailing lists. One steel company figures “usable leads” have jumped 25% as a result of the system.

The system was devised by Clapp & Poliack, Inc., exposition managers, who put on the Philadelphia show, and who first introduced the system at the Design Engineering Show at Chicago in early 1958. C&P hit on the idea after testing alternatives for a couple of years, trying to come up with a system to appeal to “the engineering mind, which thinks in terms of using time most efficiently.”

Clapp & Poliack has a stock of some 500 imprinting machines under lease from Addressograph-Multigraph and supplies them to exhibitors as part of the booth fee. It also rents the Graphotype embossing machines and buys the plastic blanks from Addressograph. Use of the system at the Plant Maintenance Show, with 15 Graphotype machines and 20,000-odd visitors, cost about \$12,000. That's about half of what the system cost when it was first introduced.

The Philadelphia exhibit is the fourth C&P show to use the “inquiry time-saver system.” A few shows run by other outfits also have used adaptations of the idea. The C&P system will get its biggest workout at Chicago in September when it will be used at the concurrent Machine Tool Exposition and the Production Engineering Show. About 125,000 visitors are expected at the two shows.

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Burlington Industries Plans Merger To Get Deeper Into Carpet Field

Burlington Industries, giant of the textile field, will grow measurably bigger if merger plans with James Lees & Sons Co., major carpet manufacturer, go through. Lees stockholders will vote late in April on whether to approve a deal that would give its common stockholders two and one third shares of Burlington common for each share of Lees common.

Lees, 113-year-old veteran headquartered in Bridgeport, Pa., had sales of over \$80-million in 1959, putting it second only to Mohasco Industries. Burlington's fat \$805-million sales in fiscal '59 puts it well in front in the textile trade. Since Burlington had earlier acquired three smaller carpet concerns, it might even wind up tops in carpets.

If the merger is approved, Lees will operate as a wholly owned subsidiary of Burlington, keeping its name, management, and personnel.

• • •

Skyjector Device Turns Clouds Into Advertising Billboards

Unexcelled Chemical Corp. is offering a device that proves the theory the sky's the limit in advertising. Unexcelled's “Skyjector” beams sponsors' messages onto clouds. Given proper atmospheric conditions, Skyjector messages can run up to several miles in diameter, can be seen from 15 miles away.

Unexcelled, which hopes to lease the unit to advertisers, admits that its unit cannot break through barriers of fog, thick haze, or smog. However, it claims Skyjector functions during snowstorms. And for cloudless days, it suggests that any large surface—skyscraper, cliff, or dam—can provide a suitable screen.

• • •

New Plastic Has Built-In Scent To Match the Article It Packages

New packaging allure is now on the market: scented polyethylene.

Fragrance Process Co. has developed a resin concentrate with aromas built in. Called Poly-Scent, the concentrate is dry blended with Petrothene, U. S. Industrial Chemical Co.'s film grade resin for extrusion. Texas Plastics of Elsa, Tex., makes the scented film.

In Fragrance Process' repertory are aromas of “clean linens” for fresh laundry packages; perfume for packaging lingerie, sweaters, and the like. Tweed, Spruce, and similar scents are suggested for men's sport clothing packaging. Candy box overwraps may smell of chocolate and spearmint.

The concentrate sells for \$1.50 to \$5 per lb. depending on the aroma. The blend requires from one-fourth of 1% to 2% of the concentrate—again varying with the flavor.

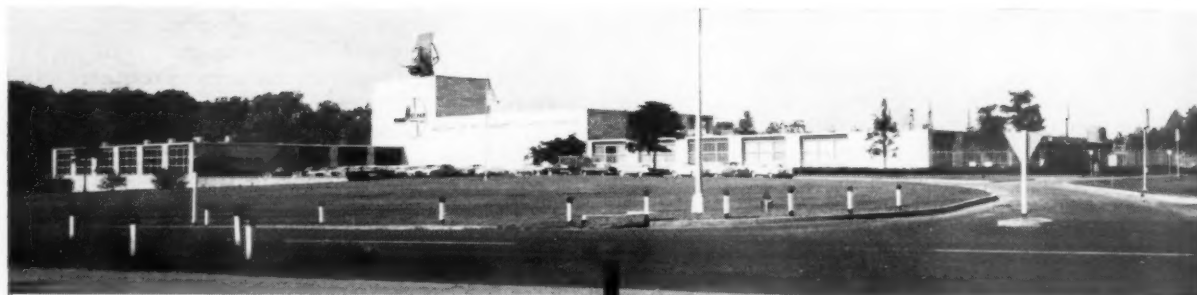
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Appliance Dealer Starts Rental Service

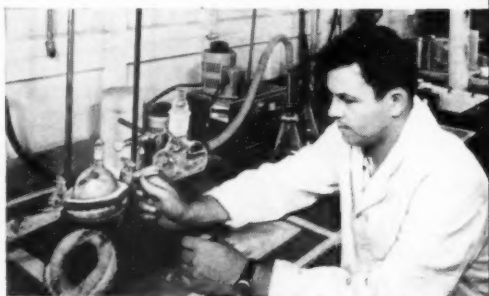
Polk Bros., Chicago's \$80-million-a-year appliance dealer, this week opened a large-scale appliance rental program. As a starter, it put up 5,000 name-brand dishwashers for rent, at \$6 a month or 20¢ a day. Several hundred were rented the first day.

Polk plans a similar deal for freezers at \$5-\$10 a month, combination washer-dryers at \$10, air conditioners at \$7.50. And it will soon try to rent color TV for \$10 a month.

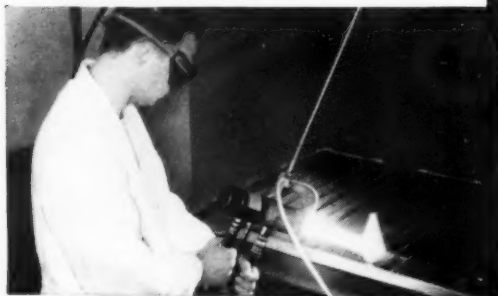
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INTERNATIONAL OUTLOOK

BUSINESS WEEK

FEB. 6, 1960

A BUSINESS WEEK

SERVICE

Premier Khrushchev is wasting no time in expanding Soviet influence in Latin America. This week he has Deputy Premier Mikoyan in Cuba to size up that ticklish situation and to dicker with Castro about aid and trade. It was only the other day that Mikoyan visited Mexico.

At midweek Washington was betting that Mikoyan would offer economic assistance as bait to get Castro to establish formal diplomatic relations with Moscow. U. S. officials were not so certain that Castro would accept, although it might be in line with his neutrality policy to do so.

If Washington has Soviet tactics sized up correctly, Mikoyan will tread cautiously in Cuba. He won't give his speeches too strong an anti-U. S. flavor. Nor will he offer military aid to Castro, since this might provoke Washington into calling off the summit meeting that is scheduled for May.

However, the Soviets could miscalculate the U. S. reaction to even an economic deal with Cuba. The State Dept. would be likely to shrug off an agreement on aid as one of the hazards of competitive coexistence. (The U. S. extends aid to Poland.) But Congress might not take such a calm view. Any big Soviet-Cuban deal could touch off Congressional moves to retaliate against Castro. Congress might even try to limit Pres. Eisenhower's freedom in negotiating with Khrushchev at the summit.

When you watch Khrushchev operate it seems he has everything under control, with not a worry about Russia's domestic and foreign policies. In reality, that's far from the case. Note the following developments:

- Khrushchev recently ousted from key jobs two of his personal buddies in the Presidium—A. I. Kirichenko and N. I. Belyayev. The first had been in charge of heavy machinery production, the second in charge of the virgin land scheme in Kazakhstan. The reason for their demotion to minor posts, according to Polish sources, was a row with the Soviet Premier over the allocation of capital goods such as earth-moving equipment. Kirichenko and Belyayev wanted Kazakhstan to get priority even if that meant holding up Khrushchev's pet project in Egypt, the Aswan Dam. This didn't go down well with the boss.

- Red China's leader, Mao Tse-tung, is burned up over Khrushchev's upcoming visit to India and Indonesia. Khrushchev already has made some scathing remarks about Mao's border encroachments into India. Now the Soviet Premier is set to promise large new amounts of economic aid to India and Indonesia—aid that Peking desperately wants. Khrushchev's trip to Djakarta also is meant as a warning to Mao that Indonesia falls in Moscow's orbit, not in Peking's.

To strengthen his hand in pushing his policy of competitive coexistence, Khrushchev has been holding a special conference in Moscow this week. He has been meeting with the Communist leaders of Eastern Europe.

One of the top items on the agenda undoubtedly has been Berlin. On this issue, Khrushchev seems determined to gain some kind of victory over the West—either by agreement at the summit or by direct action. Even so, he doesn't seem ready to risk the kind of showdown the leaders of East Germany have been demanding.

But what Khrushchev probably wants most from the Moscow meeting is

INTERNATIONAL OUTLOOK (Continued)

BUSINESS WEEK

FEB. 6, 1960

a demonstration of solidarity among the Warsaw Pact powers. This would strengthen his hand in dealing with Mao if he decides to visit Peking on his way back from Indonesia.

In the end, of course, the Soviet Premier is primarily interested in mustering enough Communist unity to impress the West as the summit conference approaches.

In this respect, his problems aren't nearly so tough as those Washington faces. The strains in the Western camp seem a lot worse, especially when you consider the troubles besetting France and the bad blood between Britain, on the one hand, and France and Germany on the other.

—●—

No Western leader is more relieved than Chancellor Adenauer at Pres. de Gaulle's successful handling of the crisis in Algeria (page 26).

As Adenauer saw it, a de Gaulle defeat would have led inevitably to the collapse of NATO and the European Common Market—the two foundation stones of the Chancellor's foreign policy. Before that happened, Adenauer felt, the U. S. and Britain would have decided to back down on Berlin at the summit.

With de Gaulle still running France, the old Chancellor now figures he can stop worrying about a summit deal on Berlin. Despite the signs that Moscow intends to force this issue, Adenauer counts on the French President to use his position as one of the Big Four to veto any change in the Berlin status quo.

Of course, the U. S. and Britain won't necessarily go along with such a German-French policy. If Khrushchev should prove at all reasonable on disarmament, and does not ask too much on Berlin, Pres. Eisenhower and Prime Minister Macmillan will try to persuade Adenauer and de Gaulle to be a little more flexible. Neither London nor Washington is willing to put Berlin above everything else.

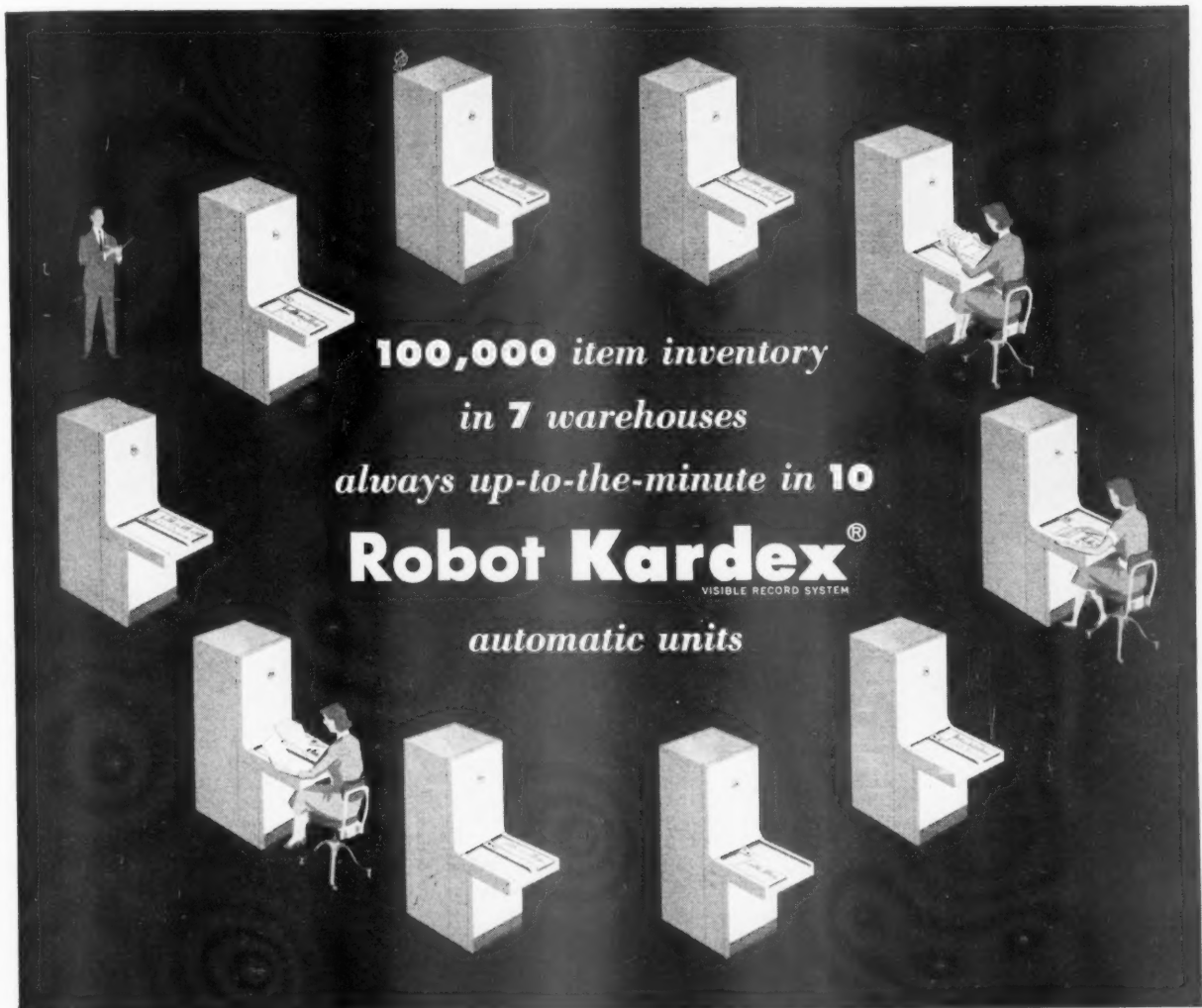
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Aneurin Bevan, the deputy leader of Britain's Labor Party and at one time a left-wing firebrand, still is critically ill. At best, he will be out of active politics for a long time. This has led to reports that the position of party leader Hugh Gaitskell—a right-winger—has become shaky, that it was Bevan who protected Gaitskell from being pushed out by the party's left wing.

In fact, Gaitskell probably will show that he has a stronger hold over the leadership than ever. There is no one of Bevan's stature in sight to replace him as deputy leader. Harold Wilson, the party's expert on trade and finance, is angling for the job, but he doesn't carry weight with the trade unions.

So, despite verbal attacks from the left, Gaitskell may push through his plan to "modernize" the Labor Party—giving British socialism a less doctrinaire, more middle-of-the-road tone. After the licking he took in last October's election, Gaitskell feels that there is no other way to keep his party in business.

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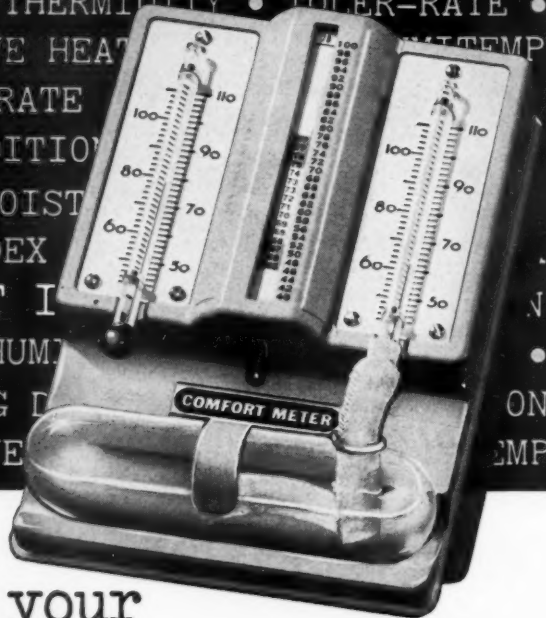
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LABOR

Hoffa and M

Their coming court battle will climax one of the longest, costliest, and most unusual legal contests in labor history.

Two years ago, in the quiet of a Washington, D. C. courtroom, James Riddle Hoffa took over as president of the International Brotherhood of Teamsters. There were some strings attached. Until the union's corrupt elements were eliminated, he would serve only as provisional president—and then under the scrutiny of a court-appointed board of monitors.

This month, Hoffa returns to the same courtroom. This time he will face charges by the monitors—led by attorney Martin F. O'Donoghue—that he has failed to clean out corruption and should, in fact, be ousted as chief of the largest union in the U. S.

• **Showdown**—Hoffa has prepared countercharges against O'Donoghue. He is also seeking to fire O'Donoghue from his job. Their contest is a final break in a system that never really worked in the first place.

Specifically, the charges and countercharges are:

• O'Donoghue accuses Hoffa of violating his trust as provisional president by misusing Teamsters' funds to his own interest.

• Hoffa charges that O'Donoghue is involved in a conflict of interest by prosecuting him since O'Donoghue, at one time, worked for the Teamsters as an attorney.

The protagonists are scheduled to appear Feb. 23 before District Court Judge F. Dickinson Letts, the judge who approved the consent decree setting up the monitor system, which Hoffa agreed to. At that time, it was with Letts' approval that Hoffa became president. With the judge's disapproval, Hoffa can be removed.

• **Serious Threat**—This isn't the first time the monitors and Hoffa have been back to see Letts. On almost every argument, they have gone to court. The record shows that O'Donoghue has battled 1,000 in winning rulings from Letts giving the monitors additional authority and staff to process their Teamsters cleanup.

There have been many attempts to “get Hoffa” and leaders of the AFL-CIO expelled the Teamsters in 1957 on Hoffa's account; the McClellan investigating committee accused him of being a top labor racketeer; and the Justice Dept. is still trying to prosecute him for alleged illegal activities. But this new court test shapes up as the

nd Monitors Gird for the Showdown

most serious threat to Hoffa's rule to date.

• **The Monitors' Move**—The monitors' attack on Hoffa climaxes one of the longest, costliest, and most unusual legal contests in labor history.

Hoffa took a calculated risk when—to break the legal logjam that kept him from becoming Teamsters president—he accepted the advice of his brain-trusters. They devised the monitorship when Hoffa, elected to the top job at the Teamsters convention in late 1957, was blocked from taking over by a suit of 13 rank-and-file Teamsters. They accused his supporters of rigging the election.

The contestants in the lawsuit agreed to the monitor plan. Judge Letts went along and, in doing so, assumed working control over the union. In the only legal challenges so far to the plan, the court's power has been sustained—clear up to the Supreme Court.

• **Counterattack**—If Letts finds Hoffa guilty of the monitors' charges, the Teamsters president can, and will, appeal the results. So the final disposition of the monitors' case does not necessarily lie in the outcome of the trial later this month. Hoffa, who has announced his intention to fight, will not suddenly lose his office.

He is prepared with an immediate

counterattack directed at O'Donoghue.

When the hearings open before Letts, the Hoffa forces will make a quick offensive thrust, charging that O'Donoghue should be disqualified from the case. Their claim: Because O'Donoghue represented the Teamsters for a time—even though it was before the start of the monitorship—he is guilty of a conflict of interest.

• **On the List**—The monitors' case for its part does not single out Hoffa, though he is the focal point of the attack. Since the beginning, O'Donoghue has charged the Teamsters leadership with harboring alleged racketeers and frustrating efforts to have them



JUDGE F. Dickinson Letts will umpire battle between Teamsters and monitors.



MONITORS' Martin F. O'Donoghue alleges Hoffa failed to clean up Teamsters.

TEAMSTERS' James Hoffa wants O'Donoghue disqualified.



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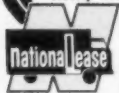
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removed. Election practices, trusteeship controls over local unions, and other Teamsters internal operations are also on the monitor target list.

In all, 329 charges against the Teamsters have been made. In the current court test, the O'Donoghue forces are concentrating on less than a score, the ones that they believe will be most effective.

In addition, the monitors are getting a valuable assist from U.S. attorneys prosecuting a number of Teamsters officials for contempt of Congress as an aftermath of the McClellan investigations. In the latest case, for example, William Presser, chieftain of the Ohio Teamsters, was convicted this week for contempt.

• **Real Estate Project**—The No. 1 charge accuses Hoffa of improperly investing more than \$500,000 in Teamsters funds, most of them coming from his own Detroit local 299. He used these funds, say the monitors, to further a Florida real estate project in which he held an interest.

The Florida project was a development called Sun Valley, Inc., headed by Henry Lower, a Hoffa associate. Lower started the project with a \$50,000 loan countersigned by Hoffa, from a Detroit bank. Later, to further support the project, Hoffa's Detroit local deposited a total of \$500,000 in the Florida National Bank at Orlando.

Say the monitors: "Both of the loans to Sun Valley, Inc., were made on the understanding that the funds of Local 299 would remain on deposit in the Florida National Bank at Orlando in a non-interest bearing account . . ." until they were repaid. Meanwhile, Hoffa held an option to buy into the project, an option he relinquished in 1958 when the project failed.

This move by Hoffa came eight months after he was named provisional president, under rules requiring fiduciary responsibility. By using union funds on an interest-free basis that would normally earn interest for Teamsters members, Hoffa violated his trust—say the monitors.

• **Bank Suits**—Meanwhile, Hoffa and the Detroit local have sued the Orlando bank and its president, Omar P. Hewitt, for \$40-million in two separate slander actions. The suits charge Hewitt with slandering Hoffa by implying he pledged the union funds to Sun Valley.

Hoffa also has another suit against the bank, seeking to force it to release some \$399,000 deposited by the Detroit local. The bank has refused to release the funds until Hoffa settles a delinquent account of \$350,000 in connection with Sun Valley.

Apparently Hoffa believes that if he wins either suit, he will have critically undermined the monitors' case against him. **END**

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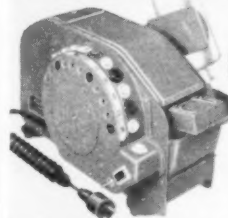
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In Labor

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UAW Organizing Activities Centralized; Brendan Sexton Heads New Operation

Two important but unrelated changes in the structure of the United Auto Workers were instituted last week.

Most significant was the centralizing of organizational activities under former education director Brendan Sexton in the newly created Solidarity House post of "coordinator of organization." Heretofore, organizing efforts have been decentralized under the various regional or departmental directors.

The move was interpreted as the first step in UAW plans to build up its membership by signing up new members among white collar workers and in areas—such as the South—which have been largely unorganized.

The other change was the formation of a National Chrysler Council, similar to the GM and Ford councils, by the Chrysler locals. The councils serve as a means of maintaining a solid union front within a given company with widely scattered plants. The Chrysler locals never bothered to form a council so long as the company was concentrated on Detroit's East Side.

But in the last few years, Chrysler Corp. has been decentralizing its operations to such widely separated points as Newark, St. Louis, Kokomo, and Indianapolis, with the result that locals could not so easily get together. The new Chrysler Council is made up of nine sub-councils formed on the basis of mutual occupational interests.

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Puerto Rican Dock Unions Merge Under Pressure From U.S. Chiefs

A merger of bitter dockworker rivals in Puerto Rico may give AFL-CIO maritime unions an effective springboard for organizing foreign flag shipping in the Caribbean. Dockside peace may also free the Seafarers International Union, which has organized extensively throughout the island in manufacturing and other fields unconnected with the waterfront, for more land-roving.

While the mainland International Longshoremen's Assn. and the International Brotherhood of Longshoremen merged without a hitch upon the return of the ILA to the AFL-CIO (BW—Sep. 26 '59, p160), the corresponding groups in Puerto Rico had trouble forgetting seven years of bad blood.

It took a visit from ILA president, Capt. William V. Bradley, Brooklyn dock czar Anthony (Tough Tony) Anastasia, ILA general organizer Teddy Gleason, and SIU Pres. Paul Hall to fuse the two groups under the aegis of the ILA. Gleason was designated the "coordinator" of the two still fractious groups as the two, though merged, will continue present operations under separate contracts.

Ultimately, the peace pact will clear the way for widespread use of containers on ships moving in and out of Puerto Rico. The ILA group, though smaller than the

IBL on the island, has more regular work at a \$2.50 an hour rate on the Pan-Atlantic Steamship trailerships. The IBL membership earns \$1.91 on conventional freighters. The ILA plans to bring that wage up and regularize work on the docks by encouraging containerization.

The quarrel between the IBL and the ILA in Puerto Rico absorbed much of the energy of Paul Hall's SIU, which had backed the IBL. Free of this, Hall expects to use his Puerto Rican staff to help organize foreign flag ships in the area, many of which use Spanish speaking seamen. In addition, the strategic hold over the port by the ILA is expected to help the SIU as it expands organizing around the island in general.

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AFL-CIO Bakery Union Opens New Drive To Pick Up Members of Rival Group

The AFL-CIO's American Bakery & Confectionery Workers Union last week launched an attack on the last major strongholds of the independent Bakery & Confectionery Workers, containing some 15,000 members along the Pacific Coast. The B&C was expelled from the AFL-CIO on charges of corruption in 1957. But the federation has recouped much of this loss.

Most bakery contracts on the West Coast expire May 1. And the staff of 30 AFL-CIO organizers hopes to get enough authorization cards signed by Mar. 1 to justify National Labor Relations Board representation elections before negotiations start.

So far local Teamsters groups have maintained a hands-off attitude on the inter-union fight. But a special emissary from Teamsters Pres. James R. Hoffa met with leaders of the B&C just after the AFL-CIO drive began. Hoffa has backed James G. Cross, president of the ousted B&C, in other fights with the AFL-CIO bakery union.

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Labor Briefs

The National Labor Relations Board this week announced the appointment of Thomas W. Miller, Jr., as director of information. Miller, former newsman and information officer of the Housing & Home Finance Agency, replaces Louis G. Silverberg, who joined the State Dept. as a labor attache in Japan.

Albert Whitehouse, former United Steelworkers official, is on the way out as director of the AFL-CIO Industrial Union Dept. He will be replaced by Nick Zonarich, former head of the CIO Aluminum Workers before its merger with the USW, and Jacob Clayman, former executive secretary of the Amalgamated Clothing Workers and top official in Ohio CIO, as co-directors. Whitehouse will return to the steel union.

Five "hot cargo" clauses, recently ruled illegal by a federal court, will remain in the new contract that ended a 10-week lithographers' strike in San Francisco this week. The clauses will become effective if the union wins its appeal to higher courts. Lithographers also secured a 4% wage increase, plus other benefits.

Trouble for Public Pension Funds?

● The spectacular growth of state and local pension funds have posed trustees with sizable investment problems.

● In some cases funds have made questionable investments based on lack of know-how or political pressure.

Recently, Georgia newspapers front-paged a story involving the State Employees Pension Fund. The fund had made a \$530,000 loan to the Atlanta Development Corp. to finance construction of a city office building. It later turned out that relatives of a prominent state official—a trustee of the Employees' Fund as well as other public funds—had a financial interest in the project. One outgrowth of this situation was the creation of the Georgia Industrial Development Administration, a watchdog group of businessmen and state officials to screen the investment policy of the state's pension funds, which include such a mixed bag as church mortgages, loans to motels, restaurants, and pants factories (see table).

• **Texas Probe**—A few months ago, the Texas Senate set up a special committee to probe the investment policies of several major state funds, including the Teachers Retirement Fund, which has almost \$400-million in assets. The investigation stemmed from a feeling of several state senators that operations of the Teachers Fund, at least, leaves much to be desired. One criticism is that only one man handles the purchase of some \$50-million in securities a year, decides on who gets \$350,000 to \$500,000 in commissions.

And just this past week, a report by New York State's Commission on Governmental Operations in New York City blasted the city administration for its operation of the city pension funds. It charged that the bulk of the \$2.5-billion in city pension funds was being invested in New York City bonds, which carry lower interest rates than are available in government and corporate bonds.

What's happening in these states may be the first faint stirrings of a storm of controversy over the operation and handling of over \$16-billion in assets now held by state and local pension funds. They range in size from the \$50,000 fund of an Arizona School District to the \$2.5-billion assets of five New York City pension funds.

These funds provide the retirement nest egg for some 4-million state and local government employees—police-men, firemen, teachers, judges, and the like. In the past 15 years, their growth

has been spectacular as cities and states have broadened coverage and sweetened benefits.

• **Unscrutinized**—Yet, despite their size, these funds have remained, iceberg-like, only partially exposed to public view. Two years ago, the McClellan Committee, poking into union-run pension funds, turned up enough examples of abuse, mismanagement, and downright stealing to stir Congress into passing clean-up legislation. Some company-administered pension funds have also come in for investigation and public exposure.

The state and local funds have remained aloof from such scrutiny. This condition, however, may be short-lived.

BUSINESS WEEK reporters, checking through a sampling of public funds, found that although most were run in a conservative, professional manner, in a number of cases investments were made in securities that would never pass the "prudent investment" criteria most pension trustees follow.

• **Questionable Practices**—Few of these practices involve illegal acts. They are mainly matters of questionable judgment in the handling of public funds including:

• **Investing pension fund money** in such assets as church mortgages, motels, local factories. Pension funds have also been used to finance the building of plants to help bring industries into a state.

• **Making the financing chores** of cities and states easier and cheaper by funds filling their portfolios with city and state bonds. For example, New York City's pension funds bought \$264-million worth of New York City bonds last year, 60% of the total bonds issued.

• **Legal Straitjacket**—Some of these practices stem from lack of investment knowhow, and political pressures. In other cases, the culprits are state laws that are too tight or too lax regarding investment policy. In most states investment policy for public pension funds is encased in a straitjacket.

Wisconsin, for example, limits investment mainly to federal or Wisconsin state or municipality bonds. California and Tennessee allow funds to be invested in any securities considered "legal" for insurance companies in the state.

Yet, even such super-safe policies don't always work out to the fund's advantage, because they make it difficult to provide the highest yields consistent with safety.

Funds are usually set up on an actuarial basis so that contributions plus earnings on the assets can cover pension claims. So if a pension fund buys an ultra-safe investment that carries a 2.5% yield when the fund needs a 3% yield to meet its actuarial estimates, the city will have to increase its annual contributions to the pension fund. In the same way, sticking heavily to municipal bonds doesn't make sense for funds (already tax-free) unless the yields are better than they can get on other equally safe investments.

Or take the peculiar case of the Texas pension funds, which are strapped by a ruling that permits them to invest only in securities the University of Texas has bought for its endowment funds. That means the State Teachers Pension Fund, for example, has to sell securities whenever the university fund disposes of its holdings of a company stock.

• **Professional Assistance**—Another big problem facing these funds is finding competent people to handle their investments.

New Jersey has a large professional investment staff. The Ohio State Teachers Retirement Fund leans on Moody's Investment Service, and the Detroit City Employees Fund uses an advisory committee, which has representatives from each of the city's three largest banks.

Although there is a trend toward using professional people, some funds are run by state or local officials who know little or nothing about investing money. "After all, state officials aren't elected for their financial wizardry," points out a knowing politician.

• **Dubious Loans**—When this occurs you can get the sort of situation that has cropped up among some of the Georgia pension funds. Look carefully at their investment portfolios and you see a whole string of loans to motels, restaurants, car showrooms, and the like. Few banks would touch such loans without careful study and expertise. Yet the state funds have few on their boards who would qualify as experts.

In fact, just this week, one of the big motels on Jekyll Island, which the Georgia Teachers Retirement Fund helped finance with a \$1-million loan, was taken over by a group of New York investors to avert a sheriff's sale of the motel's furnishings that were going on the block.

Loans to churches need the same

Here's a Sampling of Investment by Georgia Pension Funds

FUND	INVESTMENTS	AMOUNT (original)
Employees Fund	Loan to Waynesboro Garment Co. . . .	\$161,000
Firemen's Pension Fund	Loan to John P. Pickett for Improvements to Pickett Chevrolet Co.	\$50,000
Firemen's Pension Fund	Loan to William Sitas for improvement to a privately owned water system	\$27,500
Firemen's Pension Fund	Loan to the Trio Restaurant and Motel	\$42,500
Peace Officers Fund	Loan to the Griffin Motel and loan to the Capri Restaurant, both businesses owned by the same group of men	\$50,000 \$32,000
Teachers Fund	Loan to Coastal Estates, Inc., for first mortgage on Jekyll Island Estates Motel	\$100,000
Teachers Fund	Two loans to Seaside Investment Co. secured by land on Jekyll Island . . .	\$704,000 \$495,266
Teachers Fund	Loan to St. Andrews Beach Corp. to finance motel on Jekyll Island . . .	\$299,000
Teachers Fund	Loan to Alpine Motor Lodge	\$250,000
Employees Fund	Loan to Butts County Development Corp. for lease to Blackwood Industries of Georgia	\$110,000
Employees Fund	Loan to Lithonia Lighting Products Co., a company that makes lighting fixtures	\$300,000
Employees Fund	Loan to Social Circle Development Corp. for lease to Venus Textile Co.	\$32,500
Employees Fund	Loan to Sylvester Worth County Industrial Development Corp. for lease to Sylvester Textile Corp.	\$271,000
Teachers Fund	Loans to 38 churches including First Baptist Church, Douglasville, Ga. . . .	\$200,000
	First Baptist Church, Milledgeville, Ga.	\$250,000



MOTEL—Jekyll Island motel was loaned \$100,000 by Teachers Fund.



CHURCH—Baptist Church in Atlanta received \$200,000 from Employees Fund.



REAL ESTATE—Office building in Atlanta was loaned \$530,000 by Employees Fund.

careful study. They also entail some additional problems, as Dr. Roger Murray, former vice-president of Bankers Trust Co. and now professor at Columbia University, points out.

"What do you do with the property if you have to take it over? Can you think of worse public relations?"

There's also the question of whether it's wise for a public body to be the creditor of a religious institution.

Using state pension funds to help the state's industrial development program is likewise a questionable practice. The millions of dollars salted away in such funds are a great temptation for many a small town or city anxious to get new industry.

• **Real Estate Investment**—In 1956, a bill was proposed to the Georgia Legislature requiring the Employees Pension Fund to invest 45% of its funds in Georgia real estate; the idea was to bring new industry into the state, as well

as to assist old industries in operation.

The bill didn't pass, but several Georgia funds do make such investments (see chart). The way such a deal works is for the local community to form an industrial development corporation. This corporation then negotiates to get a company into town and in the process will agree to build a plant and lease it to the outside company. To do this, it gets a loan from the pension fund and secures it with building and land and maybe other guarantees.

If the company has a first-class credit standing, the investment can be sound. But here again expertise is demanded.

Moreover, there's the real question of whether pension money should be used this way. "When I retire I want to know I'll be getting monthly income no matter how small," says one state official. "I don't want to be told instead that I'm the proud owner of one-twentieth of a share of stock in the

Teeny-Tot Cradle Factory of Podunk, Ga."

This hits at the nub of the problem. If the company that leased the plant goes out of business, perhaps no one in town can use the buildings.

• **Public Bond Purchases**—Another questionable practice is using pension funds to help cities and towns market their bonds at low interest rates. The aim of the town or city is directly counter to the goals of the fund trustees which is to get maximum yield. Often in such cases political pressure is brought to bear on fund officials. In Virginia, the Virginia Retirement System has bought state dormitory bonds (limited by law to 4%) which the state had difficulty marketing. In this case, the fund tried to sell the issues to private investors as soon as it found a market and put the proceeds into higher yielding securities.

In New York, State Comptroller

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CASE

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Worldwide Sales and Service

Arthur Levitt, who is sole trustee of the \$1.5-billion State Employees Retirement Fund said he has been under pressure from builders and some politicians to invest the fund's assets in low-interest loans to builders who are now finding bank loans difficult to obtain.

• **Conflicting Role**—In New York City, the situation is further complicated by the fact that the official responsible for selling city bonds at the lowest interest rate is the same man responsible for investing the city pension funds to get the highest rate. The man with the two hats is City Controller Lawrence Gerosa. The two hats Gerosa wears are comparable to those worn by Treasury Secy. Robert Anderson who sells government bonds with one hand, and with the other buys bonds for the Social Security Trust Funds. Just this past week the Treasury took steps to clarify this dual role (page 115).

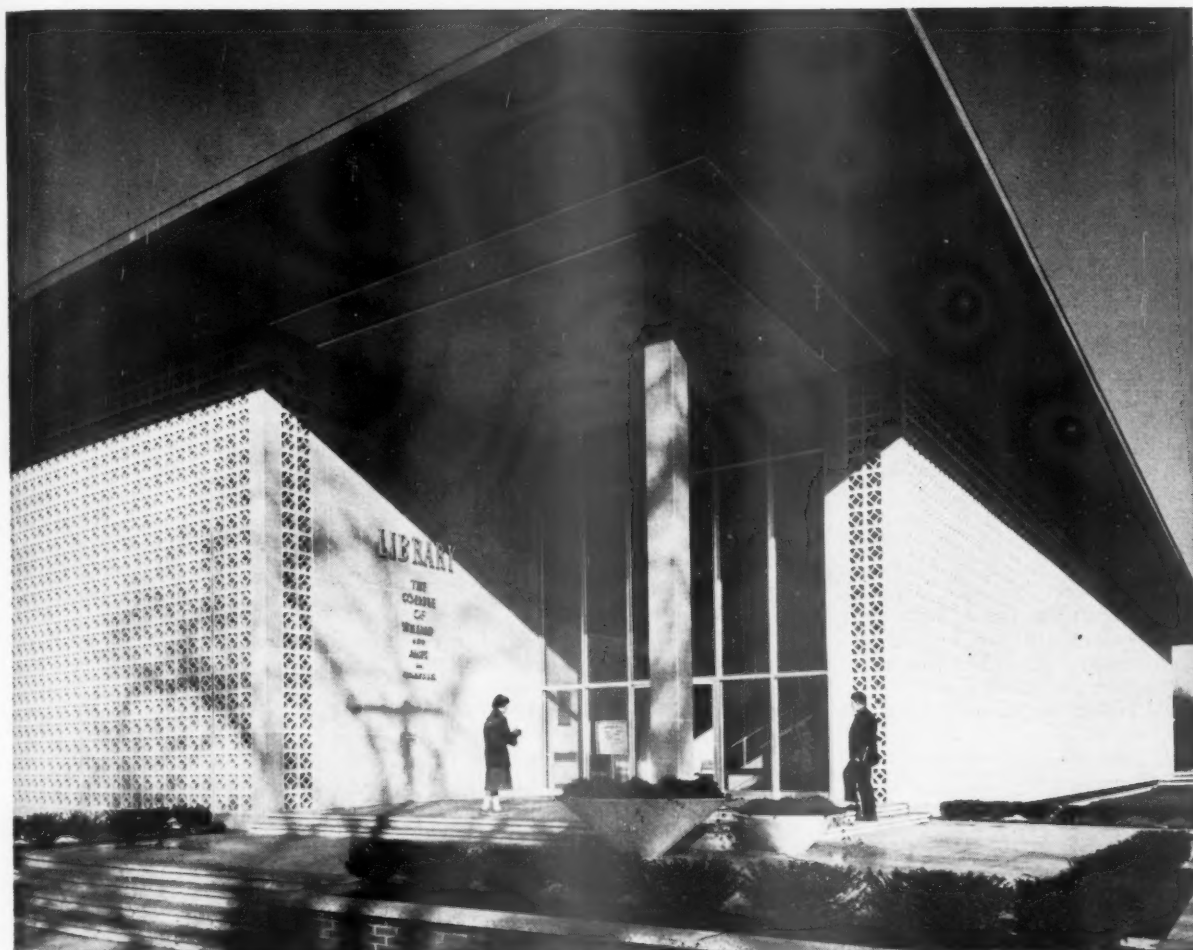
Currently, \$1.8-billion of the assets of the New York City pension funds, or 75% are invested in city bonds. Whether it was to the advantage of the pension funds is questionable. This past year, the city funds bought \$264-million in city bonds at yields ranging from 3% to 3.5%. At the same time, it could have bought Aaa public utilities yielding around 4.2% to 4.7%, or U.S. governments, yielding 3.6% to 4.5%. A difference of 1% in yield rate could mean several million dollars in additional earnings for the fund, and cut down on the annual supplement the city has to provide.

• **Financial Distortion**—This looks like no more than the right taking from the left hand. But such practices can conceal the cost of government by understating the expense of debt service and overstating the cost of pensions. And it is by no means clear that a loss to one is an equivalent gain to the other.

The City of Houston pension fund does heavy buying of city bonds. The policy is defended on the basis that it's good fiscal policy to own the city's own securities. "This strengthens the market for our own bonds," says George Nichols, who heads the city's treasury department.

• **Majority View**—But the majority of fund trustees shudder at such practices. "We feel we would be inviting criticism if we bought Philadelphia bonds," says Harry G. McDowell, deputy finance director.

The bank advisers to Detroit's pension funds don't like the idea of "buying your own credit" and have not recommended such action. State Comptroller Arthur Levitt of New York, who wears two hats, feels the same way. His goal in buying is to get the highest yield consistent with maximum security. "When I'm selling, my goal is exactly the opposite." **END**



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Funds Take a Cautious View

Mutual fund managers see bull market losing momentum. Most expect it to move in a narrow trading range this year; some think it has already seen its high.

A year ago, BUSINESS WEEK made its first annual survey of mutual fund managers—the men who make investment and open-end portfolios—and how they viewed the economy and the stock market. Their mood then was fairly cheerful, cautiously optimistic. If they erred—and some did, grievously—it was by being too conservative about the upward trend of stock prices.

That is what makes the results of BUSINESS WEEK's second survey significant. For the mood of fund managers has turned almost full circle. The common theme now is one of uncertainty—uncertainty about the level of economic activity later in the year, uncertainty about the reaction of other investors talking about a business let-down.

The fund managers themselves view the bull market as losing momentum; they think the risks are beginning to outweigh the potential profits. Many, in fact, feel that the market may have already seen its high for the year. If they are again on the conservative side in estimating the forces they see at work, then the stock market could really be headed into trouble in 1960.

• **Signs**—This defensive turn was clearly indicated by portfolio transactions of the funds over the past six months, and especially in 1960's fourth quarter (table). Many fund managers began pruning out equities, chiefly because they felt stock prices had fully discounted potential gains in earnings, partly because bond yields were becoming so much more attractive than low stock yields.

A relatively large number of funds, in fact, ended up 1959 as net sellers of stocks—a big change from 1958, when the overwhelming majority were net purchasers. And the funds are now reluctant to pump new cash into the stock market in the way investors have come to accept as normal. Their shift into neutral is one of the main factors behind the market's present shakiness and may well contribute to a new decline later in the year.

• **Influence**—The role of the funds and the strength of their influence on the market is open to dispute. But there is no doubt they can—and do—have an effect. This stems both from their size and their fast growth. At the end of 1959, net assets of all investment com-

panies totaled nearly \$17.4-billion, compared to \$14.8-billion at the end of 1958—a gain of roughly 18%.

When mutual funds buy or sell, they influence other investors. In the earlier stages of the bull market, institutions showed a willingness to step in and bid up prices at the slightest sign of price concessions. Others then climbed on to their bandwagon.

But now the big investment companies are hugging the sidelines, waiting for the next basic trend in stock prices to show itself before they move. Even the all-common-stock funds, dedicated to a policy of full investment in equities, are more selective now. And if the mutual funds steer the course they say they've set for themselves, they won't be coming back into the market in any volume any time soon. This means others may stay out, too.

• **Caution**—One sign of the new caution evident among mutual fund managers is in their predictions on the movement of the Dow-Jones industrial average. The best any of them see for the index this year is 750, compared to the all-time high of 685 in the year's first week, and this week's 635. A number feel it could hit 700 or so in late spring. But many feel 685 will stand as 1960's high.

Few look for any steep decline, though. A surprisingly large number do see a sharp break to, say, about 550, and a few to as low as 500. But most fund managers see the year's low somewhere around 615.

The relatively thin trading range they foresee fits in with their prediction about general business conditions. Few fund managers see any great spurt in production this year—except for increased volume in the first half as inventories are rebuilt. Many think that consumer spending and military expenditures should keep rising, and that this should sustain a high level of industrial output. Yet they don't envision any dramatic climb in output. A few even talk in terms of a business downturn toward the year-end.

Specifically, most fund managers think the Federal Reserve Board index of industrial production will average between 166 and 170 this year; a good many think it could go a bit higher, say, to 172 or so. In December, the FRB was 165, so you can see that fund

officials aren't betting on a big spurt. But neither do they see business falling out of bed.

This slowing rate of gain in production should have an effect on stock prices. The managers of investment funds evidently think it will dampen investor enthusiasm, particularly for the so-called growth stocks. That's the chief reason why those few funds that plan to switch investment tactics this year say they will switch toward more defensive issues.

• **Tight Money**—The fund managers' biggest worry is tight money. They see Federal Reserve monetary policy as the most important factor in determining this year's stock price level, and most expect further credit restraint.

They assume that tight money will work its two-way squeeze on stock prices: It brings about higher bond yields, which make stock yields look that much less attractive; and it brakes business spending, thus cutting projected earnings and dividends.

• **Shift**—Pessimists also think they see a change in investor sentiment. Fund managers agree that the public's confidence in equities last year spurred the rise in stock prices. But many now feel this confidence is ebbing somewhat, with fixed-income investments more fashionable.

For one thing, they detect a diminishing fear of inflation and so a dwindling yen for stocks as a hedge. More important, they say they note concern among small investors over the outlook for auto sales, homebuilding starts, employment. They feel the public's move into Treasury securities is a sign that small investors are looking more for safe, high-yielding investments.

Not all fund managers are pessimistic. A good number look for a high level of stock prices because of military and consumer spending, and hikes in corporate earnings and dividends.

• **Selective**—The prevailing uncertainty is best reflected in the wide range of opinions on which stock groups will outperform the averages this year. Fund managers, of course, always see certain stocks as winners. But this year they are willing to pick very few such.

Generally, fund managers who expect a shaky market name the utilities, banks, insurance companies, and some retail trade stocks as 1960's best bets. They feel these stock groups not only can withstand any market break, but also have the potential to increase in price.

A handful of votes are cast for the rails, chemicals, electronics, and office

SECURITIES BOX SCORE

How the funds
acted in 1959's
fourth quarter

Common Stock Portfolio Transactions

GROUP	PURCHASES	SALES	NO. OF ISSUES
Utility	\$48,233,650	\$17,997,072	64
Chemical	34,004,733	6,728,136	23
Electric & Electronic.....	25,230,762	4,948,270	31
Auto & Auto Parts.....	19,391,402	3,692,838	12
Metal & Mining.....	18,818,026	9,248,654	29
Drug	16,534,966	8,837,613	15
Oil & Oil Equipment.....	16,098,072	22,319,769	32
Bank & Finance.....	15,931,760	2,178,550	30
Building & Construction.....	11,556,710	10,571,165	33
Amusement	9,040,719	1,371,152	15
Retail Trade	8,333,280	2,099,269	17
Tobacco	8,275,590	270,000	5
Food & Beverage.....	7,684,951	3,072,601	12
Insurance	6,664,839	3,172,774	15
Machinery	6,364,926	6,158,332	21
Office Equipment	6,003,484	686,381	9
Paper & Pulp.....	5,645,690	2,040,391	10
Rubber	5,626,204	2,300,310	6
Rail & Rail Equipment.....	4,711,413	2,128,500	9
Container	4,615,638	4,122,100	7
Aircraft	3,490,864	3,449,539	11
Steel	3,453,013	15,503,875	11
Miscellaneous	16,150,156	13,379,295	43

Data: Arthur Wiesenberger & Co.

Some Top Favorites

COMPANY	BOUGHT	
	NUMBER OF FUNDS	NUMBER OF SHARES (net purchases)
Am. Electric Power.....	11	353,496
Tenn. Gas Transmission..	3	136,465
Ford Motor	14	131,500
Central & South West....	6	98,800
Square D	2	91,000
NY State Elec. & Gas.....	8	90,440
Henry Holt	4	75,250
Gillette	6	65,900
Transamerica	4	64,600
Dow Chemical	7	64,587
Sears, Roebuck	7	61,565
Upjohn	3	55,000
Wilson	3	48,200
Allied Chemical	6	46,700
Int'l Nickel	12	44,900
General Motors	10	43,600
Continental Can	4	42,800
Mack Trucks	4	42,035
Philips Lamp	4	37,400
General Electric	9	36,700

Data: Commercial & Financial Chronicle.

Some Big Liquidations

COMPANY	SOLD	
	NUMBER OF FUNDS	NUMBER OF SHARES (net sales)
British Petroleum, Ltd....	2	293,900
American Airlines	8	174,400
American Foreign Power..	3	143,600
Northwest Airlines	4	108,600
Philco	3	77,356
Deere	6	77,074
Container Corp.	2	75,000
Jones & Laughlin	7	68,300
American Viscose	4	67,400
Gulf Oil	4	55,667
Smith, Kline & French....	3	51,000
Socony Mobil Oil.....	4	48,700
Hooker Chemical	2	46,500
North American Aviation.	5	46,500
Niagara Mohawk Power..	4	44,249
Amerada	6	43,400
U. S. Steel.....	7	41,500
United Fruit	2	40,400
Inland Steel	3	38,500
Skelly Oil	2	37,500

Data: Commercial & Financial Chronicle.

©BUSINESS WEEK

equipment stocks. Scattered tallies go to paper stocks, oils, small airplane manufacturers, meat packers.

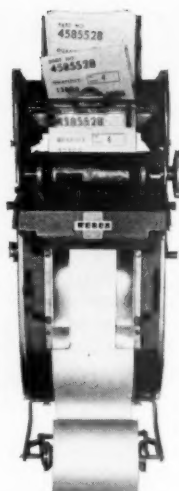
There's a bit more agreement on which stocks will be laggards. Heading the list are steel shares, which fund

managers feel have been overbought. Many of these same funds sold out steels at good profits shortly after the settlement.

Building shares also are expected to suffer, as credit conditions bite into

housing starts, municipal projects, and highways. Some look for a sharp downturn in shares of farm equipment makers, textiles (despite a rosy earnings outlook for many of them), coppers, and airlines. **END**

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Wall St. Talks...

... about mutual fund management fees, tax dodges in housing, stock sale gimmicks, price gyrations.

A civil war is developing in the mutual fund industry as a result of SEC's digging into big management fees. Some funds have voluntarily scaled down their management fees and are anxious to advertise the fact, pointing up the comparison with funds which haven't. One fund man predicts a price war in management fees.

Construction companies have been warned that the Internal Revenue Service is cracking down on businessmen who set up a chain of corporations in order to avoid the full 52% corporate tax bite. Chief target seems to be home development projects.

Underwriters are using all sorts of gimmicks to push little-known stocks in today's tight new issues market. The latest is one devised by Charles Plohn & Co. to sell 140,000 shares of Sta-Brite Fluorescent Mfg. Co. of Miami. On top of a 75¢ commission for each \$5 share sold, Plohn is offering dealers one free share for every 10 they sell. This means that if dealers then sell the bonus share, too, they get the whole \$5.

The current upsurge in bond prices has caught at least two big Wall Street firms in "short" positions, with losses trimming off a lot of the fat profits made by going short in the past several months. Of the two firms it's hurting the all-bond house more than the diversified "department store" firm.

SEC is probing the gyrations of Columbus Electronics Corp., whose shares jumped from \$3 to \$6, then fell back again. The stock moved up on rumors of a "fabulous" contract that Columbus was to have received, but the deal evidently never took place.

Investor appeal of the Florida land boom seems to be waning. When Canada's Cockshutt Farm Equipment, Ltd., announced this week that it was branching out with an investment of \$9.1-million in Florida real estate, its stock promptly sold off on the news.

Maxwell H. Gluck, president of Darling Stores Corp., says he'll press on to unsat the present board of H. L. Green Co.—even though he could get holders of only 13.5% of Green's stock to back his call for a special stockholder's meeting; 25% were needed to call the meeting.



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WINTER—throngs of skaters are what you'd expect to see on the 85 x 185 foot Baltimore Memorial Ice Rink.



SUMMER AND FALL—the rink becomes a parking lot for baseball and football fans at adjacent Memorial Stadium.



Steel helps this skating rink lead a double life

From December until Spring this rink is a colorful scene of flashing blades and gay spirits. But when April's balmy weather breezes in, a quick change takes place. Fence and kick-board are cleared away. The rink disappears and a 200-car parking area is provided for Baltimore Oriole fans streaming into Memorial Stadium. Rooters for the Colts take over in football weather.

When skates are back in season, 10 miles of Bethlehem Steel refrigeration pipe embedded in the concrete freezes 1½ inches of water into hard-surface ice.

Besides its use in refrigeration, steel pipe serves dependably in heating, plumbing, and air-conditioning . . . in transmission lines for gas and oil . . . and wherever liquids and gases are conveyed.

BETHLEHEM STEEL



In the Markets

. . .

Stock Prices Rebound in Rally Attributed to Technical Factors

Stock prices finally rallied this week. In a sudden and sharp movement, the Dow-Jones industrial index shot up from a low of 622 to 637 before falling back again.

Most analysts described the rally, sharp as it was, as a technical reaction to the slow but steady erosion of stock prices during January. They pointed out that volume was small, indicating that there was no great rush of buyers; and they also cited the fact that the rise was over by midweek, which suggested that there was no real momentum to it.

The rise is deceiving. For the market is considered "thin," with very few orders on specialists' books. That means that any demand is likely to cause a quick markup in prices, while any sudden rush of selling sends the market down.

Most investors are clearly awaiting firmer indication of which way the economic winds are blowing. As long as trading remains light, it is doubtful that the market will make any decisive moves. But this does not rule out pretty wide fluctuations.

. . .

Bullishness in Government Issues Helps Treasury Save on Refunding

Government securities prices continued to rise this week, particularly in the money market. Ninety-one-day Treasury bills are now selling to yield less than 4%, and six-month and one-year bills have fallen below 4½%.

The new bullish tone contributed substantially to the Treasury's success in refunding \$11.5-billion in maturing securities—about \$5.5-billion of them publicly held. The Treasury offered a choice of a one-year 4½% certificate at par or a four-year, eight-month 4½% note, priced at \$997.50 to yield 4.93%.

Only two weeks ago, the market was sure that the Treasury would have to pay at least 5% on the note. While a "magic" 5% coupon would have made headlines and attracted smaller investors, the Treasury's move, prompted by the market's bullishness, will save some \$700,000 yearly in interest on each \$1-billion of the notes.

The biggest factor in the current wave of optimism is a projected Treasury surplus of \$2-billion this calendar year, compared with a deficit of \$8-billion in 1959. Investors are not sure that rates will continue to decline and prices rise, but they feel that they cannot be badly hurt by buying now. In fact, the new sentiment has spread to the corporate bond market, where only two small issues remain in syndicate, and is beginning to be felt in the municipal bond market, where prices are considered relatively low.

Federal Reserve officials seem to be marking time in monetary policy. They think the market anticipated a severe tightening which did not come off. But no big easing in market rates is ahead. If demand rises

sharply, rates will move up again; if it doesn't, they should stay at or near current levels.

. . .

Treasury to Hike Interest on Money Borrowed From Government Trust Funds

The Treasury this week took the first step to bring interest rates it pays on money borrowed from other government agencies more into line with the market. Effective immediately, it will pay higher interest on loans from veterans insurance funds, under a flexible market-based formula.

The Treasury aims eventually to adopt similar rate plans for borrowing from such government funds as social security, civil service retirement, and railroad retirement.

The veterans life insurance funds now hold about \$6.8-billion in nonmarketable government securities. For several years the Treasury has fixed interest rates on these securities at 3% to 3½%. Under the new formula, interest rates would be set about ½ of 1% under what the Treasury pays when borrowing in the market. The previous 3% to 3½% rates would be kept as a floor, however.

For this year, the Treasury expects the new securities to carry an interest rate of 4% to 4½%. This is expected to cost the Treasury some \$9-million to \$10-million, all of which is ticketed to be paid out in dividends next year to veteran policyholders.

. . .

Banker and Oilman Dip Into Electronics

Investment banker John L. Loeb, of Carl M. Loeb, Rhoades & Co., and Jack Wrather, Texas oilman and head of the Jack Wrather TV organization, have made a bid for control of Jerrold Electronics Corp. Milton J. Shapp, president of Jerrold, said this week that he is selling 322,000 shares to Loeb—reportedly at \$6.50 per share—and that Wrather has an option on 220,000 additional shares—at \$9 per share.

Loeb, considered one of Wall Street's smartest operators, has made big killings in shares of sugar and oil companies. Loeb and Wrather's interest in Jerrold reportedly rests in its ownership of TV community antenna systems and its marketing of TV closed-circuit systems. Jerrold traded over the counter this week at \$7.

. . .

American Dryer Named in SEC Complaint

The Securities & Exchange Commission lashed out this week at the promoters of American Dryer Corp., Philadelphia, whose stock spurted from \$6 to \$9 in December when the company launched a spectacular publicity campaign. This week, the shares traded at around \$4.50.

The agency accused American Dryer, which makes dryers and emergency lighting units, and 11 other defendants of selling unregistered company stock. SEC also said that William F. Kane, American Dryer's president, had stock issued in the names of various fictitious persons, dummies, and nominees to "hide his true identity as seller." Kane declined comment.



YOU USE CAUSTIC SODA THROUGHOUT YOUR BUSY DAY

Caustic soda—technically, sodium hydroxide—is a basic chemical used in so many ways by so many industries that it plays an important role in every business executive's daily round. In fact, it probably has already affected your day in many ways. Surprised? Here's the evidence.

For one thing, the suit you put on this morning owes its neat appearance in part to caustic soda. Whatever your choice in fabric—wool, synthetic, or blend—caustic soda was probably used someplace along the way in processing the fiber. And, of course, the same applies to the rest of your clothing.

Much of the paper that is so vital to your working day—in every form, including desk calendars, letterheads, business papers, and of course, order forms and invoices—was processed with caustic soda.

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PERSONAL BUSINESS

BUSINESS WEEK

FEB. 6, 1960

A BUSINESS WEEK

SERVICE

The Westminster Kennel Club show in New York's Madison Square Garden, Feb. 8-9, not only rates as top dog show in the country; it's also a gauge to the current popularity of various breeds.

The top winner at the show (and the runner-ups) can be a guide, if you're in the market for a pet. But choosing a dog isn't so easy as it may sound, especially if you want a good purebred that fits in well with your mode of living and your family. Youngsters in the home make a big difference, of course.

Your best bet is to disregard that old saw about the true nobility of some mongrels, and get a purebred. There are approximately 6-million in the U.S., about half of them registered with the American Kennel Club. This means you can be sure a pup has good blood lines—and that's the only way to get a possible show dog.

Choice is wide. There are 113 breeds, ranging from miniature poodles to rugged hunting dogs. Last year alone, three new breeds (including the silky terrier) were recognized by AKC. Currently, the favorites are beagles (first since 1953), poodles, chihuahuas, dachshunds, German shepherds, cocker spaniels, and boxers.

Before you decide, take your own needs into account. If you live in an apartment, forget about Great Danes and St. Bernards and concentrate on dachshunds, miniature poodles, and other small dogs. The big ones are fine, if you live in a suburb where the rules may not be so strict about letting dogs off the leash, or where you have a large fenced yard.

If you have young children, a big dog may be better than a small one. They can take more abuse, without snapping—your kids might be able to pony-ride a St. Bernard, for instance, but never a wire-haired fox terrier.

Then, how much time, attention, and money do you want to spend? Despite youngsters' promises to tend the dog, the chore usually is left to you, or maybe the maid. A dog with a long, heavy coat, like a Collie or Pekingese, will need more brushing time than a short-hair; and a female may be more trouble than a male, although usually more affectionate.

The chances are you won't find a purebred pup for less than \$50, and for breeds like dachshund or boxer, you'll pay at least \$100. Some cost several hundred. A potential show dog runs about \$1,000 and up.

Upkeep costs vary. A poodle, for instance, can cost maybe \$7.50 every other month, just for clipping (if you want it to look like a poodle). Food depends on whether you feed table scraps (not recommended), dog food, or T-bone steak. Figure \$60 to \$100 a year for total upkeep on an average-size dog—if he stays healthy.

It's best to buy a pup at 10 to 12 weeks, and almost never after four months. Pick a bright-eyed one that's spirited and lively, with clear eyes, clean nose, gums pink and firm, and skin free of infection.

If eyes and nose are discharging, the owner may say it's just a cold; but insist on having a veterinarian check. In fact, it makes sense to call a "vet" in any case—for \$5 or \$10 you'll be sure of getting a good, healthy animal.

PERSONAL BUSINESS (Continued)

BUSINESS WEEK

FEB. 6, 1960

Deal with a reputable kennel and ask for AKC registration papers when you buy. The kennel also should stand ready to refund your money if for some reason the dog doesn't turn out well, and should alert you to details of feeding, shots the dog may require, and so on. You can get a list of registered kennels by writing to the American Kennel Club, 221 Fourth Ave., New York 3.

There are several items you'll need when the pup comes home. You should have a kennel outdoors, or a warm and comfortable place indoors, also a food bowl, water bowl, leash, cheap collar (he'll soon outgrow it), and a dog license. Sometimes the kennel will give you a couple of days' supply of food for the pup when the feeding routine is explained.

If you want your dog trained, you can do it yourself, using one of several good books available, or you can take the pup to obedience school, for a modest fee. Write to Gaines Dog Research Center, 250 Park Ave., New York 17, for a list of dog obedience clubs and classes in your locality.

Waistline dept.: Here's Metropolitan Life Insurance Co.'s new table of "desirable weights" for men 25 and older. Figures represent weights in ordinary indoor clothing and heights in shoes (BW—Oct.24'59,p153):

HEIGHT	SMALL FRAME	MEDIUM FRAME	LARGE FRAME
5 ft. 2 in.	112-120 lb.	118-129 lb.	126-141 lb.
5 ft. 3 in.	115-123	121-133	129-144
5 ft. 4 in.	118-126	124-136	132-148
5 ft. 5 in.	121-129	127-139	135-152
5 ft. 6 in.	124-133	130-143	138-156
5 ft. 7 in.	128-137	134-147	142-161
5 ft. 8 in.	132-141	138-152	147-166
5 ft. 9 in.	136-145	142-156	151-170
5 ft. 10 in.	140-150	146-160	155-174
5 ft. 11 in.	144-154	150-165	159-179
6 ft. 0 in.	148-158	154-170	164-184
6 ft. 1 in.	152-162	158-175	168-189
6 ft. 2 in.	156-167	162-180	173-194
6 ft. 3 in.	160-171	167-185	178-199
6 ft. 4 in.	164-175	172-190	182-204

You'll soon be able to get 20% more insurance without paying higher premiums when you travel on scheduled airlines (BW—May16'59,p173).

State insurance commissions are expected to approve Continental Casualty's new plan within a month. Then you will get \$15,000 instead of \$12,500 for 50¢, and a maximum of \$75,000 instead of \$62,500 for \$2.50. In effect, air insurance rates are being reduced one-sixth and maximum benefits raised by \$12,500.

On the auto insurance front, a 10% cut in liability and collision rates for owners of small and compact cars (except sports cars) has been announced by 400 companies—43 states are affected (BW—Jan.23'60,p121).

Localized influenza outbreaks in 14 states are expected to spread to widely scattered areas. If you have a heart or lung disease, or are over 55 and have any chronic ailment, the Public Health Service advises flu shots. But keep in mind that it takes three weeks for a shot to become effective.

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PARLIAMENT ushers in the 1960s with Conservatives, led by John Diefenbaker (seated left of Gov. Gen. Vanier), firmly in power.

Sizing Up Canada's Tory Regime

Businessmen—both U.S. and Canadian—are trying to forecast the long-range effects of "Diefenbaker's nationalism."

While 1960 may bring the U.S. a change in government, Canadians already know that they face at least four more years of their present Conservative government.

For the first time in 30 years, the Conservatives—very roughly equivalent to the Republicans in the U.S.—will begin a new decade in power. And while informed Canadian businessmen see no political or economic similarities between 1930 and 1960, they are taking a hard look at the man and the party that probably will govern the Dominion for most of the 1960s.

The man is Prime Minister John G. Diefenbaker, the greatest vote-getter in Canadian history. The party is Canada's Progressive Conservative Party, which in 1958 captured 208 of the 265 seats in the House of Commons—which it will hold until the next election in 1963. Even if the Conservatives should lose a quarter of their present strength then, they would remain in power to guide Canadians to the still distant 1970s.

• **Impact on U.S.**—After Diefenbaker was reelected in March, 1958, there was some fear in the U.S. that the new nationalist-minded administration would crack down on the growing power of U.S. subsidiaries (BW—Apr. 5'58, p34).

This has not happened, although there have been measures taken to assure Canadian control over insurance and trust companies, and though the National Energy Board currently is conducting hearings on the amount of natural gas that can be exported to the

U.S. (BW—Dec.12'59, p110). Also, the Tories are drawing up regulations to compel any companies staking claims to Canadian Arctic natural resources to prove they are Canadian-controlled.

But there is no "Americans Go Home" campaign under way. Rather, the U.S. subsidiaries are quickly being persuaded to compromise with the nationalists—to elect Canadians to directorships, and to put out a Canadian issue of stock as well as a separate Canadian annual report.

• **Early Signs**—Nevertheless, nearly two years of "Diefenbaker nationalism" is producing effects that could have an impact on Canadian-U.S. relations in the 1960s. They are:

• What political opponents call "Canada's one-man government."

• Some deviations from the Dominion's traditional mediator role in foreign affairs.

• The rise in Parliament of a Young Conservative majority that feels that Canada can now stand on its own feet economically.

I. One-Man Rule

If you look at Canada today, almost two years after Diefenbaker's landslide victory, it's obvious that the Prime Minister and his huge Conservative majority are still supreme. Few democratic postwar elections in the Free World have given a party leader such a large mandate.

The once powerful Liberals now claim only 49 of the 265 seats in the House of Commons. Apart from them and a handful of peppery Socialists, the rest are Diefenbaker's Tories.

• **Old Guard Opposition**—Only three years ago, a gloomy party rally split violently over the bid for leadership of the same John Diefenbaker, then a

crusading lawyer from the Canadian West and still almost unknown in his own country. The Old Guard of Toronto's financial districts were determined to oppose him.

Today's charges of "one-man rule" stem from the opposition's claim that Diefenbaker now feels that since his personal decisions and perseverance led to political victory, they should also lead the way where government policy is made. Indeed, one of the major differences between his administration and that of his predecessor, Louis St. Laurent, is the number of decisions announced from Diefenbaker's office.

"It sounds funny to say this today when he is a Conservative Prime Minister," comments a leading Canadian sociologist, "but underneath, John Diefenbaker was and is a radical agrarian. First and foremost is his interest in people. His humble background as a prairie lawyer almost defeated him in his leadership bid against the Toronto business barons. If he can keep close to it as the leader, he will not only assure a decade of power for the Tories, but he will permanently change Conservatism in Canada."

In nearly two years, Diefenbaker has spent more on social benefits than any previous leader, and increased the Liberals' welfare spending by \$500-million. Old age pensions were increased from \$379-million to \$578-million. Federal Hospital Insurance, promised by the Liberals but pushed through by the Tories, now costs Canadians an extra \$160-million annually. Pensions for the blind and disabled have risen from \$10-million to \$22.5-million. Americans can put those figures in perspective if they remember that Canada's gross national product, at \$34.6-billion, is little more than 7% of this country's.

• **Northward Ho**—After social legisla-

tion, perhaps the most practical application of what Diefenbaker during the election called "the vision of Canada," is the scope given to the Dept. of Northern Affairs & Natural Resources, which administers the Dominion's vast and potentially rich Arctic regions.

No doubt spurred on by the recent fast-paced industrial growth of nearby Soviet Siberia as much as by Diefenbaker's emphasis on underdeveloped Arctic Canada, officials of this department make weekly cruises around the business centers of eastern Canada, interview mine presidents, investment executives, to interest them in a trip to the North to see what's really there.

The department was set up by the Liberals in 1953, but it wasn't until early 1958 that Diefenbaker established two priorities in the northern exploitation that had just begun. "These are . . . to expand research and scientific exploration . . . to provide transportation facilities so that the investigation and developments of these resources can proceed," the Prime Minister told BUSINESS WEEK.

- **Claim-Staking**—In March, a 50-man team of Canadian scientists—members of the Polar Continental Shelf Project—will take off for a seven-month detailed look at 90,000 square miles of Canada's Arctic polar shelf. One of their main tasks—investigation of oil, gas, and coal reserves—involves Canadian concern about control over the rich Arctic shelf.

Just in case any doubts lingered as to ownership—the inference is possible claim-staking by the U.S.—Canadian rights to the shelf underlying Arctic waters were confirmed May, 1958, at Geneva by the International Conference of the Law of the Sea.

There is also talk that the Tories will ask Parliament to approve creation of two new provinces (there are now 10) carved from the Canadian North.

- **Roads to Resources**—Diefenbaker's insistence on the need to open up this region is obvious in his "Roads to Resources" program and in the relaxed restrictions on the number of non-scheduled feeder airlines in the north.

Under the Roads to Resources policy, the federal government and the Western provinces having northern territories are spending \$60-million for road construction into newly opened settlements. One such road will link the Yukon Territory with the Canadian tidewater port of Stewart, B. C.

On Dec. 18, the Air Transport Board announced that it will permit extension of non-scheduled, charter commercial services in the North.

II. World Political Role

Until 1958, Canada's traditional moderating role in world diplomacy was

the result of the professional skill of Lester B. Pearson, then Minister of External Affairs and now head of the Liberal Opposition to Diefenbaker. Howard Green, present External Affairs Minister personifies the nonprofessionalism of the Diefenbaker Cabinet.

It's a little early to try to tie down the Conservative's foreign policy, but most Canadian observers predict that it will be a continuation of the Liberals' middle-of-the-road policy—despite seemingly erratic alignments at the United Nations. Since September, the Dominion has (1) opposed French Algerian nuclear bomb testing and insisted that all Free World and Communist powers carry out exhaustive water, food, and air radiation tests before any further discussion of future nuclear tests; (2) supported South Africa's efforts to keep apartheid discussions out of the General Assembly; and (3) seconded Communist Poland's claim to the vacant temporary seat in the Security Council against Turkey, the U. S. candidate.

- **Trade With U.S.**—A middle-of-the-road approach also will apply to Canada's trade relations with the U. S. and the United Kingdom. Canada has always had a high trade imbalance with the U. S., and trade diversion from the U. S. to the U. K. and British Commonwealth is an old Tory policy.

Actually, Canadians find it nicer to talk about than to pay for. In mid-1957, the Conservatives—scarcely in office—suggested that Canadians divert 15% of their U. S. business to the U. K. But high tariffs against U. S. goods would have meant even more U. S. subsidiaries starting to manufacture in Canada. And government purchases of U. K. manufactured goods would discriminate against small Canadian fabricating industries—which Conservatives traditionally are pledged to protect.

Figures for the first nine months of 1959 show what effect the suggestion had. Imports from the U. S. totaled \$2.6-billion (down 74%), while imports from the U. K. reached \$392.6-million—an increase of only a tenth of what Diefenbaker had in mind in 1957.

- **Action**—For the nine-month period ending last November, the trade imbalance with the U. S. stood at \$1.2-billion, and this past month there has been hints that the government might take restrictive action.

This feeling has developed following major speeches by three of the government's top men. Finance Minister Donald Fleming made a traditional appeal to Canadians "to be frugal" in a time of tightening money; James Coyne, governor of the Bank of Canada, sees "disaster" in the continued "unstable rate of capital expenditures"; and O. J. Firestone, top government economist prophesies that a 1962 cycli-

cal recession will bring the worst slump to Canada since the 1930s.

Since Canada is the only country in the world with both a huge trade imbalance and a free currency, the most effective weapon available to Diefenbaker is to peg the dollar at par—or below—with the U. S. dollar, as the Liberals did in 1947.

III. New Voices

Long range, perhaps the greatest repercussions in the U. S. will come from the rise of the "Young Conservatives" who now fill Canada's Parliament and who are strongly pro-Canadian rather than anti-American.

The largest contingent in this group comes from the basically Anglo-Saxon Protestant southern Ontario business community with its center in Toronto. While they reflect the strong prejudices of southern Ontario—originally settled by bitter Tory refugees from the American Revolution—which include a lingering suspicion of the U. S., they nevertheless oppose the Old Guard of their own party as well as the Liberals.

- **New Deal**—To these Young Conservatives, the Liberals failed to represent the growing companies in the industrial complex of southern Ontario. During the long Liberal regime, many major Canadian businessmen found it good business to build up their Liberal connections. C. D. Howe, former Liberal Trade & Commerce Minister, brought so many business leaders under his wing in the numerous wartime and postwar department he created that today some of the Dominion's biggest businesses are headed by "Howe's proteges." These men were given executive positions in "Crown Corporations," which made everything from ships to synthetic rubber for war production.

Under Diefenbaker, the Young Conservatives expect more protection from such influences in Ottawa. So far, the Prime Minister has set up a small business government agency, and will soon centralize all the Crown Corporations that Howe created.

- **Less Bias**—Equally important in the swing to pro-Canadianism is rejection by the Young Conservatives of the Old Guard's refusal to include Canada's "new races" in the Diefenbaker program. (One out of every eight Canadians has arrived there since 1945.)

Proof of this are the men holding some of the top party offices. They include Ukrainian-Canadian Michael Starr, Labor Minister; Icelandic-Canadian Gunnar Thorvaldson, senator and new president of the Progressive Conservative Federation of Canada; Chinese-Canadian Douglas Jung, young Vancouver lawyer. And the Prime Minister appointed Canada's first Indian senator last year. **END**



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MANAGEMENT

New Style M

Episcopal diocese of Michigan is in midst of reorganization on professional lines—but in church, it's a slow process.

The executive pictured on these pages is the Rt. Rev. Richard S. Emrich, Bishop of the Episcopal Diocese of Michigan—the spiritual leader of more than 100,000 people, and temporal administrator of assets in excess of \$40-million.

Like other executives pictured from time to time in *BUSINESS WEEK*, he is offering a service and leadership to a substantial number of businessmen and the public. And, as is also true of other executives, the success of his efforts to a large extent depends upon organization. It must be structured to free him for policymaking and other activities that only he, because of his rank and calling, can undertake.

Right now Bishop Emrich's organization is undergoing a restructuring from top to bottom that is compatible with business management principles. This week the restructuring moved significantly, though slowly, forward at the annual Diocesan Convention, which is



TOP MANAGER is Bishop Richard S. Emrich, who wants church to "face up" to modern world, and turned to professional management men to find organizational basis for it.



NEW OFFICES to house modernized activities of diocese will be ready later this year in \$1.75-million Diocesan Center building—which Bishop Emrich is here inspecting—next door to cathedral.

OLD BUILDING (in background, above) now used for offices. was put up 80 years ago as deanery, is so cramped and antiquated that staff resorts to rope pulley to haul mail upstairs (right).

Management for an Old Church

the governing body of the church in Bishop Emrich's jurisdiction, and to which he is responsible.

Stripped to basics, the work of the Convention was twofold: to approve another top-level executive, a Suffragan Bishop, to direct activities for Bishop Emrich in a subdivision of his Sec; and to vote changes in canon law which would foster better organization.

• **Adapting to the Present**—Such progress in the reorganization of the diocese must come slowly. "The church by nature is conservative," says Bishop Emrich. "It has a lot to conserve. Yet the church has to adapt to the world."

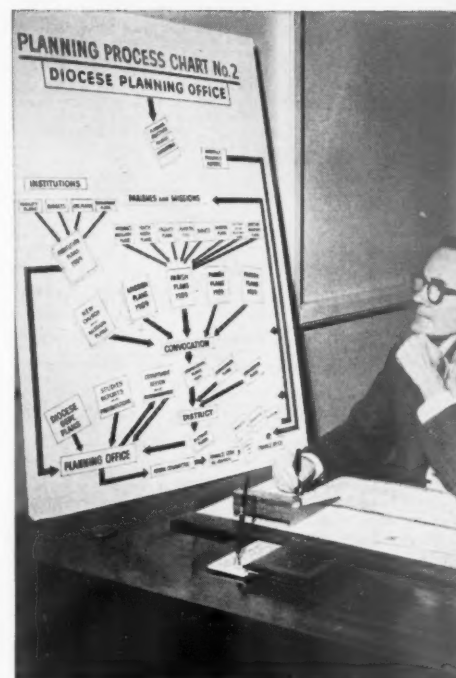
The Episcopal Church in Michigan is adapting, if gradually. The Convention deliberations this week embraced the most important efforts yet taken in a four-year-old campaign by Bishop Emrich to modernize his diocesan organization, make it responsive to the industrial tempo of the region where it functions, and derive all possible benefits from a businesslike approach to the administration of the secular affairs of his Sec.

In previous steps, the diocese has been divided into three districts, a planning director has been appointed, long-range operating plans put into effect in

some departments, and some of the lines of administrative responsibility to the Bishop rerouted to lighten his work load. "I like more time in the field to see the children on my confirmation visits," he says. The whole purpose of applying business management concepts to diocesan administration is to give him time for this and his other pastoral duties.

• **Church and Business Methods**—No one—certainly not Bishop Emrich—would contend that the church, any church, is a business operation. But no one would contend, either, that the administration of an ecclesiastical organization cannot be helped by a clear delineation of duties: Who does what, when, and in what relationship to other components of the organization.

This is particularly true in the Protestant Episcopal Church, which lodges great responsibility and authority in lay members whose subjection to the bishop in some temporal matters has only shadowy canonical substance. It is even more pertinent to the Diocese of Michigan, which geographically includes the location of some of the country's very biggest business organizations and, because of that, finds many of its lay



PLANNING director, Donald Thurber, a layman, has five-year program under way.



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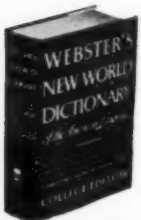
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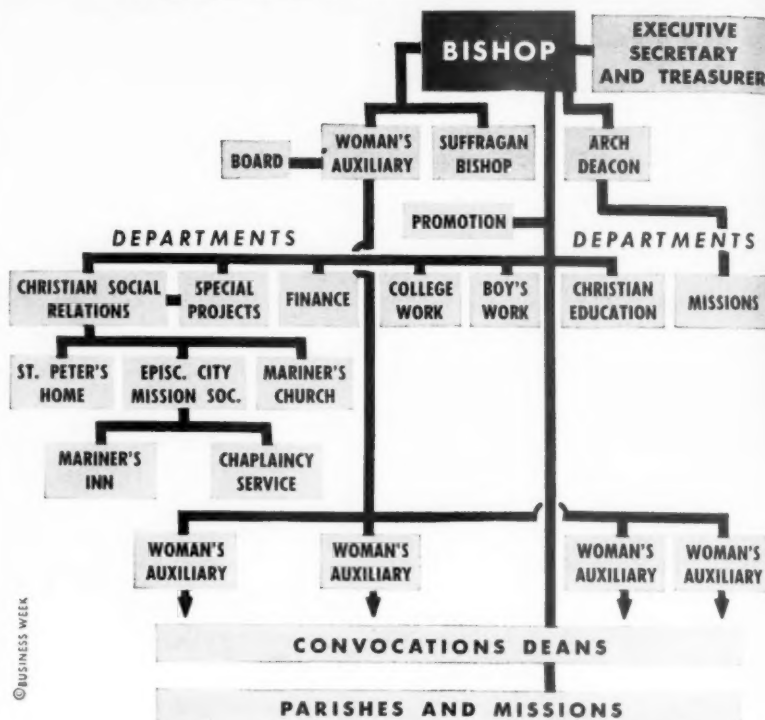
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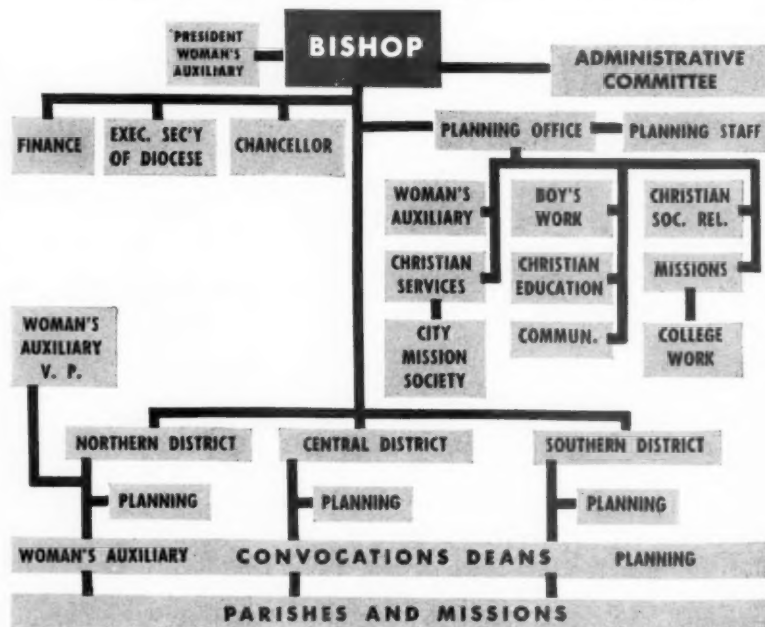
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nearly 250 miles long and 100 miles wide. In number of "souls" it is eighth in the nation. The church property—the "corporate worth"—of the diocese is valued at \$40.8-million.

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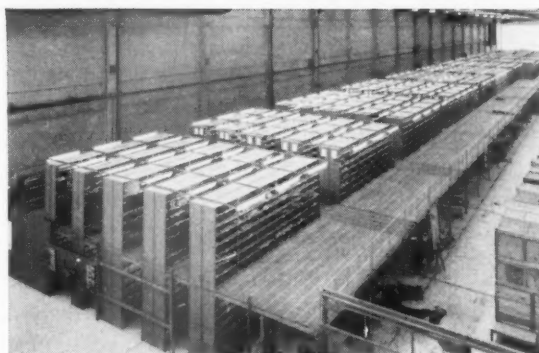


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the growth has been twisted this way and that, pushed forward here and thwarted there, by the shifts and changes of the industry of the area. This has created problems both spiritual and temporal, because of the nature of the church.

• **Voice for Laymen**—The Episcopal Church is a "democratic" institution which gives lay members a substantial voice in the selection of the clergy who serve them. Bishops are elected for life by conventions in which both clerical and lay delegates vote. Nationally, the church is headed by a Presiding Bishop (now the Rt. Rev. Arthur Lichtenberger) who presides over General Conventions held every three years. The next one will be in Detroit in 1961.

An annual Diocesan Convention is conducted by the bishop, and delegates are all the accredited clergy of the diocese and lay members elected by the parishes. The delegates elect the executive council, which is the governing body between conventions.

At the base of this pyramid—nominally subject to the bishop's spiritual authority, but in many respects autonomous—are the parish churches. Parishioners elect the vestry from among their number. The vestry elects the rector, with the advice—not necessarily the consent—of the bishop.

In matters of "faith and morals," the rector and any assistant priests are subject to the bishop. In administration of the parish the rector is subject to (and in some cases removable by) the lay members. Nationally, the relationship of the Presiding Bishop to a diocesan bishop is somewhat similar. Although his opinions carry weight in spiritual matters, the Presiding Bishop has no executive authority in the affairs of the dioceses.

• **Modern Complications**—In this sort of organization, the diocesan bishop can lead in management and administration by moral suasion. This is one complication in Bishop Emrich's attempts to remake the structure of his diocesan organization. Another is the characteristics of the modern age, especially in Michigan.

"There is a certain restlessness with the actual work of the church," he explains. "The world has changed more in the past 75 years than in any previous period. Modern industry is brand-new. Nothing like it existed before... another brand-new thing is the modern university... the hospital world... the world of big government, big labor. If the church has nothing to do with these things, the church is on a side street.

"Another new thing is the speed with which history moves, the speed of communication and of travel. A previous Bishop of Michigan spent a day in a buggy to go 25 miles and back for a

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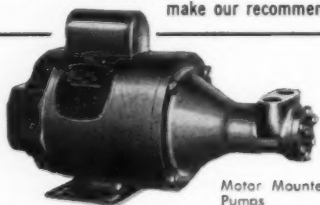
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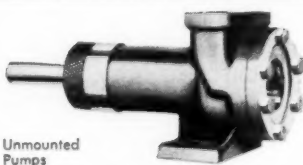
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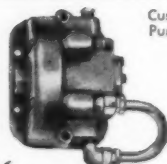
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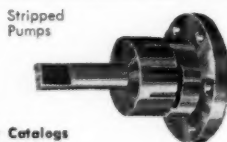
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confirmation. I've flown to New York and back for dinner.

"By and large the church hasn't faced up to the world."

• **In Closer Touch**—But Bishop Emrich has been trying to face up to it since his election in 1948. He has wedged into the industrial world with the Detroit Industrial Mission, the aim of which is to explore and illuminate the relationship between Christianity and modern industry and its workers. He has assisted and encouraged the founding of the first school to instruct laymen in church work.

Bishop Emrich is also pushing a massive program to revitalize churches in downtown sections of big cities, some of which have a 100% turnover in parishioners in a year. He began and will see completion this year of a \$1.75-million Diocesan Center building adjacent to the cathedral. This replaces the 80-year-old former deanery which has had to serve as a cramped, antiquated office building.

In the organization sphere, he solicited suggestions for improving diocesan administration, and readily accepted a proposal for a management study by management men—the basic document for the present restructuring moves.

II. A Plan of Organization

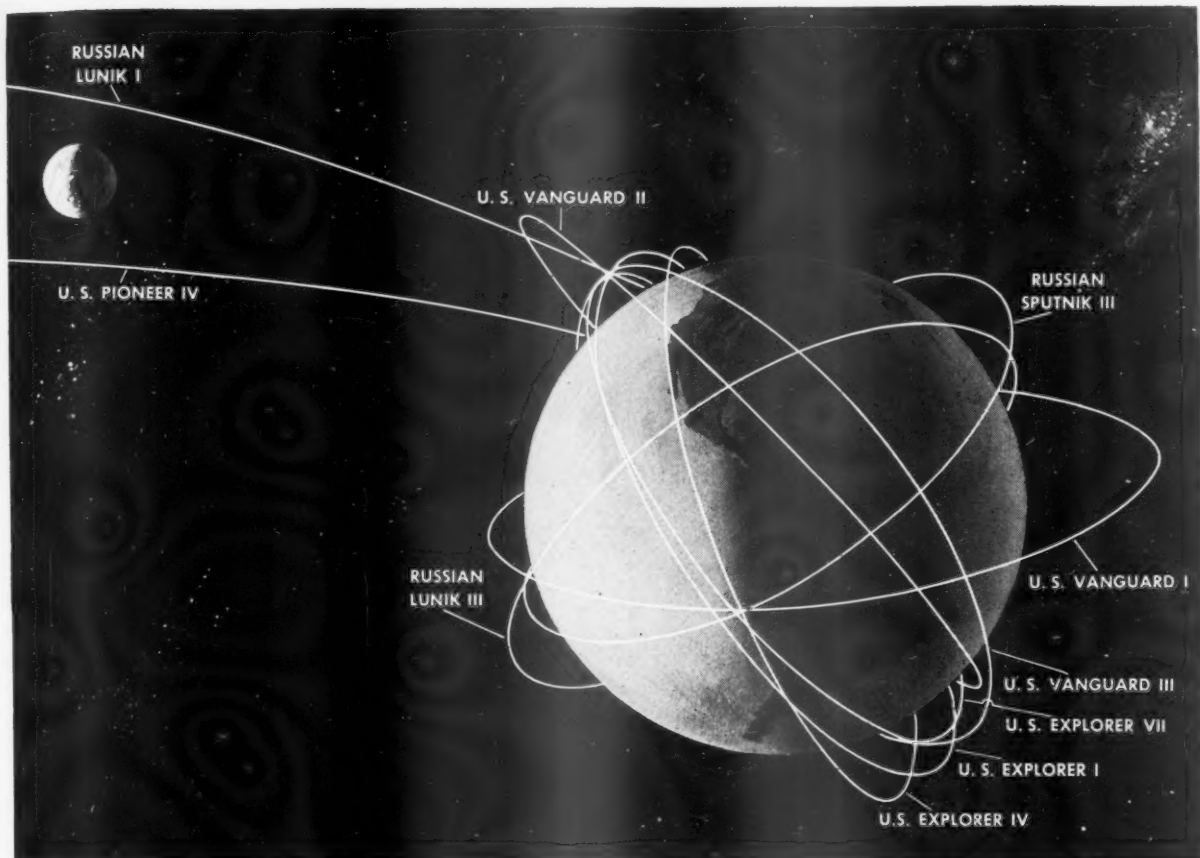
"There is something wrong if you don't study organization these days," says Bishop Emrich. "It's in the cards."

The idea for the management study originated with E. P. Wright, a prominent Detroit attorney, and the Rev. Hugh White, a member of the executive council and director of the Detroit Industrial Mission. The reason for the study was not that the diocesan machinery was creaking. Rather, so many special activities had been added so rapidly that there never had been time to coordinate and integrate them with the other work of the church.

• **All-Round Study**—Accordingly, the executive council in April, 1956, approved the hiring of Joseph G. Standart, Jr., an advertising executive familiar with management techniques, as an administrative assistant to the bishop to conduct the study of the diocesan organization.

After finding that no similar work had been done in other dioceses, he broke the work of the diocese down into five basic classifications roughly corresponding to the operating departments on the diocesan level: administration, Christian education, communications, development, and finance. Then he got together committees of specialists (some of whom were of other faiths), selecting the chairman of each himself. He got each chairman to suggest members.

Both Wright and White, who sug-



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Bendix has been entrusted with developing other extremely impor-

tant space programs. There is Project STEER which will mark a whole new era in modern global communications. It is a world-wide radio system with vast military and civilian possibilities. It will use satellites orbiting above the earth as relay stations to transmit two-way messages between the ground and Strategic Air Command bombers on global missions.

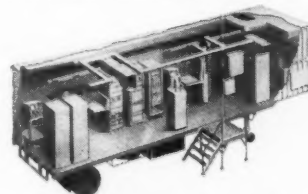
Bendix is also playing an active role in connection with the nuclear aircraft, nuclear ramjet and nuclear rocket engines now being developed for use in planes, missiles and space vehicles.

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Electron Multiplier tube, which was rocketed high above the earth's atmosphere to obtain the most accurate measurements to date of the sun's more powerful radiations, are other Bendix space projects.



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gested the study, were on the committee to examine administration, along with Ralph McElvenny, chairman of Michigan Consolidated Gas Co. Finance was studied by a group headed by Selden Daume, then president of the Detroit Bank & Trust Co. Auto company vice-presidents, newspaper executives, and university deans were on other committees.

• **Blueprint for Change**—The report was adopted in the summer of 1958. Its major recommendations in the management sphere were:

- Create three districts in the diocese, north, central, and south, each with a suffragan bishop.

- Give the convocations—meetings of parish representatives, with no supervisory or voting power—greater stature, and make them operating groups reporting to the bishop.

- Consolidate all the special funds of the diocese under control of the trustees.

- Establish two new committees of the executive council, one for finance, one for operating and planning, both with paid staff directors. Structurally, this would resemble a corporation with finance and operating committees responsible to the board of directors and independent of the chief executive officer.

Some of these steps have been taken. Others must still await acceptance by local clergy and the laity, for the traditions of a church die hard. "The past," Bishop Emrich counsels, "has its rights."

III. According to Plan

The past seems to have its particular rights in the area of finance, rights that the planners resignedly but not hopelessly accept. The consolidation of funds and appointment of a paid controller for the Finance Committee, as well as the strengthening of the convocations, must be effected by changes in the constitution and canons—not an easy thing to accomplish in any organization, and particularly in one where control of the purse by elected representatives of the constituency has been inbred for centuries.

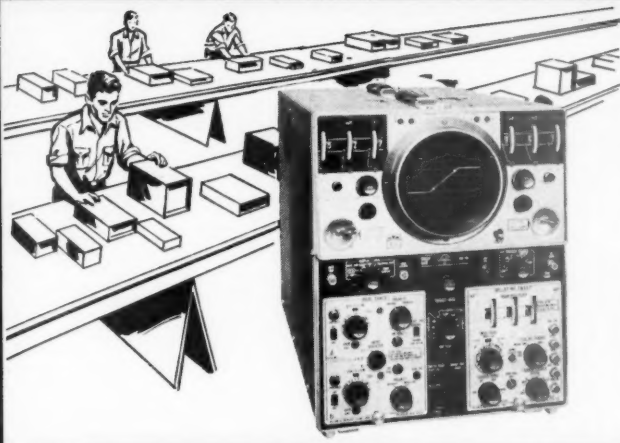
• **Administrative Strides**—The big strides have been in strictly administrative matters. The redistricting has taken place, although there are not, and cannot be for some time, three suffragans.

The northern district is under an archdeacon. The Wayne County district, which includes Detroit, and the southern district are supervised by Bishop Emrich and Suffragan Bishop A. H. Crowley, who has been his assistant since 1955.

This week, Bishop Emrich expected to get Diocesan Convention approval

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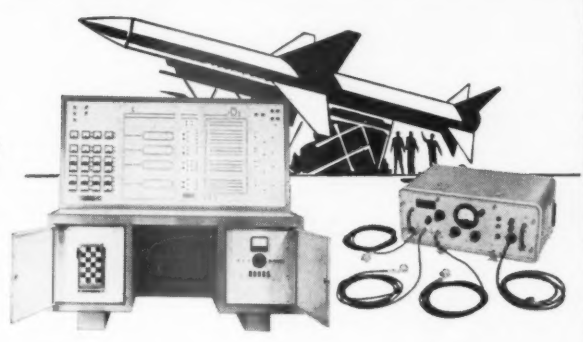
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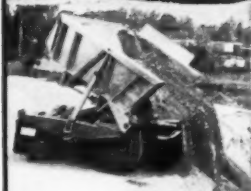
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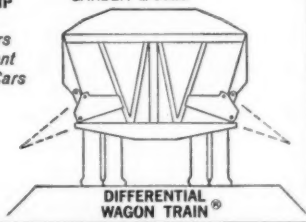
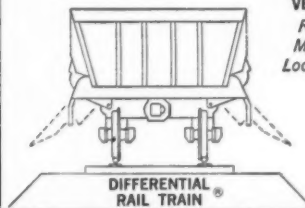
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for a second suffragan—only two other dioceses now have two suffragans. Authority for the second suffragan, and a third in years ahead, will have to be ratified by the general Convention of the national church.

• **Planning for Growth**—Meanwhile, the start has been made in the redistricting. This, says Bishop Emrich, "will let the diocese grow so that it will have the strength of bigness and the intimacy of smallness."

And there is a "planning office" which in part corresponds to Standart's proposed operating and planning committee. The paid director of planning is Donald M. D. Thurber, a man of wide experience in institutional work. The departments are not reporting to him, for it is not yet decided whether it is wise for the planning director also to have operating responsibilities.

Anyway, Thurber is not yet ready for such a load. He is formulating basic outlines for operating plans that can be adapted by the diocesan departments and, later, by corresponding district and even parish departments when and if needed.

• **Long-Range**—The key to Thurber's proposals for operating plans is to get the departments to define their objectives, the necessary first step before any operating unit can lay out a long-range program. It is this necessity for the departments to define their aims that makes one of the canonical changes before the convention this week so far-reaching.

This change is an amendment with deceptively simple wording: "the (Executive) Council shall prepare and present to the convention a projected plan of operation for the next following year, together with a statement of the principles or reasons which the council used in developing the projected plan of operations."

Obviously, any unit that formulates a continuing program, rather than confining itself to one-shot efforts, is going to have to structure itself properly to accommodate the plans. In this way, the bishop and his planning director hope that the need for all to adopt new planning procedures will smooth the way for the full reorganization that they want to put into effect.

• **Slow Process**—Right now, the charting and the structuring is for only the departments at the diocesan level. Until these are flowing smoothly, Thurber sees no value in reorganization at the lower levels, for the top would not be equipped to respond to requirements from below.

It will still take time to complete the plan outlined by Standart. The reason is summed up in the reflective comment of Bishop Emrich: "Free government is always complicated and a little slow." **END**

ADVERTISERS IN THIS ISSUE

Index for Business Week February 6, 1960

AIR EXPRESS DIV. OF RAILWAY EXPRESS AGENCY, INC. 75	Agency—Adams & Keyes Inc.
ALLIS-CHALMERS14-15	Agency—Bert S. Gittins Adv., Inc.
ALL-YEAR CLUB OF SOUTHERN CALIFORNIA132	Agency—Foot, Cone & Belding
AMERICAN CREDIT INDEMNITY CO. 49	Agency—VanSant, Dugdale & Co., Inc.
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ASSN. OF AMERICAN RAILROADS 87	Agency—Benton & Bowles, Inc.
AUTOCAR DIV., THE WHITE MOTOR CO. 63	Agency—Fuller & Smith & Ross Inc.
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BANKERS BOX CO. 92	Agency—Frank C. Jacob Adv., Inc.
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BETTER PACKAGES, INC.104	Agency—Ben Sackheim, Inc.
J. I. CASE CO.108	Agency—Andrews Agency Inc.
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COLUMBIA-SOUTHERN CHEMICAL CORP. ...116	Agency—Ketchum, MacLeod & Grove, Inc.
COMBUSTION ENGINEERING, INC.50-51	Agency—G. M. Basford Co.
COMMERCIAL CREDIT CO.113	Agency—VanSant, Dugdale & Co., Inc.
COMMITTEE ON STEEL PIPE RESEARCH ... 80	Agency—Smith, Taylor & Jenkins, Inc.
DEERE & CO. 47	Agency—Gardner Adv., Co.
DIFFERENTIAL CO.134	
ALLEN B. DU MONT LABORATORIES, INC.133	Agency—Lescaurhours Adv., Inc.
E. I. DU PONT DE NEMOURS & CO.16-17	Agency—Batten, Barton, Durstine & Osborn, Inc.
EASTMAN KODAK CO.123	Agency—J. Walter Thompson Co.
EDMONT MFG. CO.130	Agency—Maurice Mullay, Inc.
EUCLID DIV., GENERAL MOTORS CORP. ...128	Agency—Richard T. Brandt, Inc.
EXECUTONE, INC. 48	Agency—G. M. Basford Co.
FINNELL SYSTEM, INC. 6	Agency—Johnson, Read & Co., Inc.
FLORIDA DEV. COMM.78-79	Agency—Henry Quednau, Inc.
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GENERAL AIR CONDITIONING CORP.104	Agency—Hal Stebbins Inc.
GENERAL ELECTRIC CO.59	Agency—G. M. Basford Co.
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HARTFORD STEAM BOILER INSPECTION & INSURANCE CO. 83	Agency—Wm. B. Remington, Inc.
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INTERSTATE MOTOR FREIGHT SYSTEM ...21	Agency—Aves, Shaw & Ring, Inc.
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THE KVP CO.129	Agency—Grant Adv., Inc.
LEHIGH PORTLAND CEMENT CO. 70	Agency—Lewis & Gilman, Inc.
LYON METAL PRODUCTS, INC.127	Agency—Reincke, Meyer & Finn, Inc.
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MASSEY-FERGUSON IND. DIV. 82	Agency—Associated Adv. Agency, Inc.
McGRAW-HILL BOOK CO., INC.126	
McGRAW-HILL PUBLISHING CO., INC. ...66-67	
MOLLY CORP. 92	Agency—Ted Black
MONSANTO CHEMICAL CO. (PLASTIC DIV.) 8-9	Agency—Needham, Louis & Brorby, Inc.
NALCO CHEMICAL CO. 69	Agency—E. H. Brown
NATIONAL TRUCK LEASING SYSTEM104	Agency—W. S. Kirkland
NATIONAL WIRING BUREAU 39	Agency—Geer, Du Bois & Co., Inc.
N. Y. STATE DEPT. OF COMMERCE 92	Agency—Batten, Barton, Durstine & Osborn, Inc.
NORDSON CORP. 88	Agency—Super Vision Inc.
REMINGTON RAND, DIV. OF SPEERY RAND CORP.101	Agency—Gardner Adv. Co., Inc.
JOSEPH T. RYERSON & SON, INC. 18	Agency—The Buchen Co.

SAGINAW STEERING GEAR DIV., GENERAL MOTORS CORP. 74	Agency—D. F. Brother & Co.
SAN JOSE CHAMBER OF COMMERCE102	Agency—Long Adv., Inc.
THE SEEBURG CORP. 45	Agency—The Buchen Co.
THE SOUTHERN CO.52-53	Agency—Liller, Neal, Battle & Lindsey, Inc.
STONE & WEBSTER ENGINEERING CORP.3rd Cover	Agency—Harold Cabot & Co., Inc.
STROMBERG DIV. OF GENERAL TIME CORP. 46	Agency—G. P. Sweet & Co., Inc.
SYLVANIA ELECTRIC PRODUCTS, INC. ...10-11	Agency—Kudner Agency, Inc.
TIDEWATER VIRGINIA DEVELOPMENT CO.109	Agency—McCurry, Henderson, Enright, Inc.
TOWMOTOR CORP. 4	Agency—Howard Swink Advertising Agency Inc.
TRAILER TRAIL CO. 39	Agency—Al Paul Lefton Co., Inc.
TRANS WORLD AIRLINES 61	Agency—Foot, Cone & Belding
UNION TANK CAR CO.12-13	Agency—Earle Ludgin & Co.
UNITED SHOE MACHINERY CORP. 62	Agency—Sutherland-Abbott
VIKING PUMP CO.130	Agency—Wesley Day & Co.
VIRGINIA DEPT. OF CONSERVATION & ECONOMIC DEV. 98	Agency—Houch & Co., Inc.
WEBER MARKING SYSTEMS112	Agency—Stoetzel & Assoc., Inc.
WELLINGTON SEARS CO. 93	Agency—Ellington & Co., Inc.
WESTERN UNION TELEGRAPH CO. 91	Agency—Benton & Bowles, Inc.

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Setting Goals for Growth

The question of how fast the United States can—or should—grow is of paramount importance.

In a special report (BW—Jan. 23 '60, p52), *BUSINESS WEEK* concluded that the key to economic growth was regular investment in knowledge, which in turn leads to technological progress and innovations.

Economists long ago saw the importance of innovation in economic growth. Until recently, however, inventions came more or less sporadically. The great change now is the widespread recognition through business and government that, through systematically planned research, we can develop a continuous flow of new ideas, new products, and new processes.

All this suggests certain broad policies for the nation:

If expanding human knowledge and developing skills are the true source of growth, then we should focus our efforts on scientific and technical research and on a better educational system.

There are also key economic decisions to be made if the U. S. is to reach its full growth potential. Growth can be braked by instability and the unemployment that goes with it or by a shortage of savings that will slow investment. But it is a real trick, as we've found since World War II, for any nation to keep its prices stable without hindering its growth or running into heavy unemployment.

These questions quickly lead to others. Can we reduce the drag of taxes as long as the government has enormous needs for revenue? Will those needs for revenue grow in the future? Will the government have to spend more year by year for national defense? Will we need ever-bigger programs to deal with such problems as transportation, water resources, public health, urban renewal? And, to come right down to cases, should the federal government be budgeting more in the areas of research and education—the very keys to economic growth?

Or perhaps it would be better to promote economic growth directly by holding down federal spending and cutting the tax load?

There are few simple and prefabricated answers to questions like these. What we need is a careful and detailed examination of the tasks this nation faces in the years ahead.

Pres. Eisenhower a year ago proposed a bipartisan commission on national goals to probe and appraise the jobs ahead. It looks now as if the commission may get down to work.

Setting goals, or merely measuring the nation's needs, can give us a frame for growth for the long haul. It will not, of course, eliminate debate or erase differences as to how the goals can be achieved. But it can set out planning guideposts—

just as long-range planning does for a business. That's the kind of a job that the U. S. needs not only to throw light on questions of economic growth—but to make it possible for the country to grow steadily and consistently.

De Gaulle Wins Time

Pres. de Gaulle deserves the gratitude not only of France but the whole free world for the way he handled last week's crisis in Algeria. By using his personal authority, de Gaulle brought dissident elements of the French Army into line, thus undercutting the insurrection of the European diehards. Now he has taken emergency powers—under the constitution of the Fifth Republic—to consolidate his position in both France and Algeria (page 26).

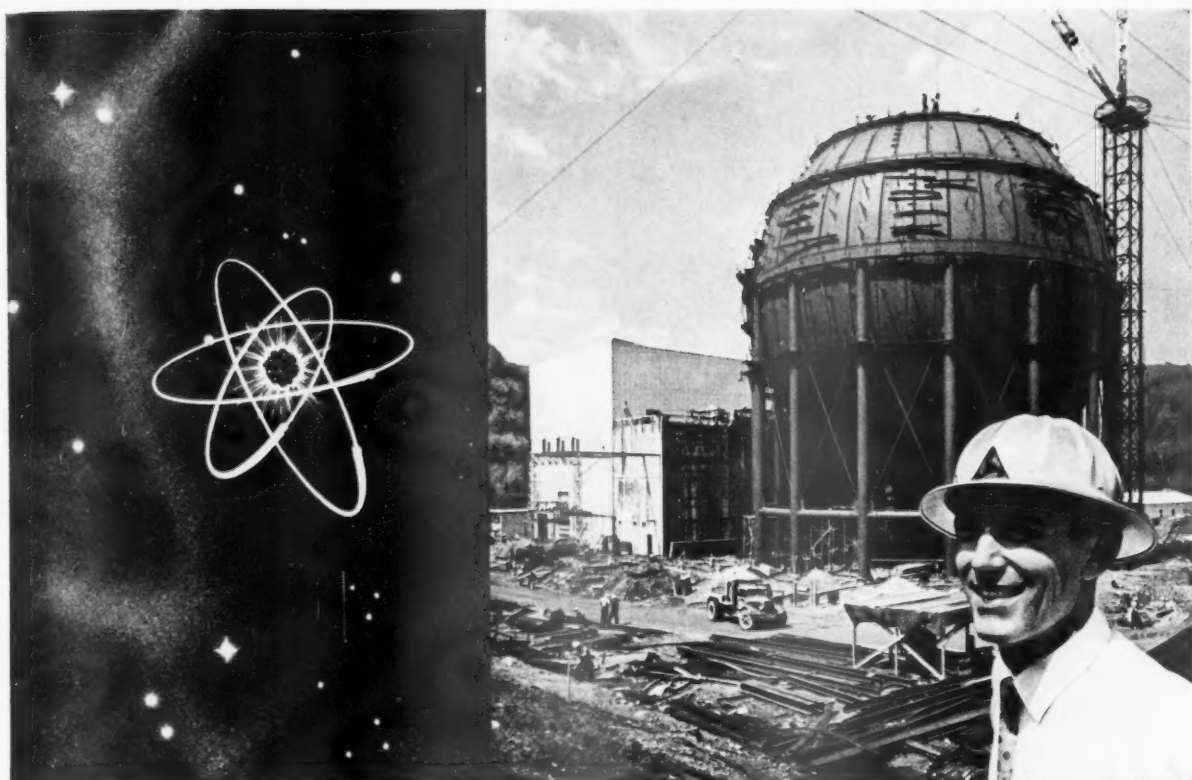
Although many Americans will have misgivings about this assumption of almost dictatorial authority, there seems to have been no other course open to de Gaulle. The real challenge he faced last week was not from the civilians in Algeria but from the Army. It so distrusts de Gaulle's policy of self-determination that it remained neutral for several days as the insurgents defied him. To remove the threat of another such challenge, de Gaulle clearly needs both time and greater power.

The sad thing about all this is that an Algerian settlement now seems further off than ever. Until de Gaulle proves that he is the master of his Army, the leaders of the Moslem revolt will not consider a cease-fire. On the contrary, the National Liberation Front plans to strengthen its military position, and to rely partly on an international volunteer force recruited from other African countries, including some that now are members of the French Community. This can only complicate France's problems in Black Africa, where the rising tide of nationalism already appears irresistible.

Public Trusts

Like private pension funds, state and local pension funds have burgeoned at a spectacular rate in the past few years. Yet, it is apparent that some of the investments of these public funds don't meet the normal "prudent investment" test demanded of pension fund trustees (page 106).

These public funds are accumulated mainly from tax money. The funds are large—they cover four million state and local government employees. So far, though, they have operated largely in obscurity. Now is the time to take a close look at them, to see that they are managed by responsible people working to professional standards, and that they are operated as true public trusts.



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Sturdy Victor insulators fulfill a double role in power transmission systems: they support the tremendous weight of the cables and they prevent electrical leakage. This eagle's-eye view was painted by artist Ned Seidler.

THEY MUST NOT FAIL... PEOPLE NEED POWER

From the minute these high voltage powerline insulators go into service, the forces of nature try to pull them down. Yet the people of power-hungry cities can be confident that their electricity will not be interrupted. Years ago, engineers of I-T-E's Victor Division learned the important secret of how to make these insulators strong: impurities must be kept out. Today, Victor insulators made of purified porcelain have the extra strength that helps them stand up under extreme stresses. They carry hundreds of pounds of cable weight easily, even under the whipping and the straining inflicted by wind and rain and ice. So cities coast to coast can be sure of dependable electric power. Other I-T-E electrical equipment

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